BC HYDRO ANNUAL REPORT

2010

BChydro
FOR GENERATIONS

BRITISH COLUMBIA
The Best Place on Earth

ABOUT BC HYDRO'S ANNUAL REPORT

This report covers BC Hydro's performance for the period April 1, 2009, through March 31, 2010, and includes its major subsidiaries, Powerex Corporation and Powertech Labs Inc. The report was prepared for our Shareholder, the British Columbia Provincial Government, and reflects BC Hydro's commitment to balance our business across three bottom lines: environmental, social and financial.

The performance targets referenced in this report were set out in the August 2009 update to our 2009/10 to 2011/12 Service Plan. The Service Plan provides a high-level, strategic look at our business and sets out the targets and measures by which our performance can be evaluated. Throughout the fiscal year, BC Hydro reports on our financial performance through a series of Quarterly Reports. This Annual Report is a reflection of the year, incorporating information found in our Service Plan and Quarterlies.

To meet the requirements for both annual and triple bottom line reporting, this report is in accordance with *British Columbia's Budget Transparency and Accountability Act*, and Canadian generally accepted accounting principles [GAAP]. It is also in compliance with the Global Reporting Initiative [GRI] G3 Guidelines. The Global Reporting Initiative has pioneered the development of the world's most widely used sustainability reporting framework. This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. In addition to the measures found in the Annual Report, a comprehensive list of performance data that supports our commitment is available in the GRI comparative index [bchydro.com/about/company_infomation/reports/gri_index.html].

COVER PHOTO CREDIT:

Sam Blair, Senior Environmental Coordinator
Environment and Social Issues, Generation Operations, Terrace, B.C.

Sam's son, Liam, fishing on the Tlell River on Graham Island on Haida Gwaii (Queen Charlotte Islands). Sam works to reduce environmental impacts by managing the environmental risks associated with our capital projects. The photo received first prize in the Conservation portion of the My Hydro Photo Contest for BC Hydro employees.

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LETTER FROM THE CHAIR AND PRESIDENT AND CEO TO THE MINISTER

(L) Dan Doyle, Chair

(R) David Cobb, President and Chief Executive Officer

BC Hydro's 2010 Annual Report was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*, and in accordance with the Global Reporting Initiative G3 Guidelines.

This report represents a balanced presentation of BC Hydro's economic, environmental and social performance for the fiscal year ended March 31, 2010. All significant decisions, events and identified risks as of May 31, 2010, have been considered in preparing this report.

The information was prepared in accordance with the B.C. Reporting Principles and represents a comprehensive picture of our performance in relation to the August 2009 update to our 2009/10 to 2011/2012 Service Plan. The measures focus on aspects important to the company and are consistent with BC Hydro's values, purpose, goals and objectives.

The Board is responsible for ensuring internal controls are in place to measure and report on performance of the company in a timely fashion. This report contains estimates and interpretive information that represent the best judgment of management. Any significant limitations in the reliability of data are identified in the report.

A YEAR OF ACHIEVEMENT

The last fiscal year was an exciting and busy time for BC Hydro, highlighted by our support for the Vancouver 2010 Olympic and Paralympic Games, ongoing improvements to our aging infrastructure, new energy agreements signed through our calls for clean power, important changes in our organizational structure, and of course the introduction of the Province's *Clean Energy Act*.

BC Hydro's 2010 Annual Report outlines these activities, accomplishments and more. On behalf of the Board, we'd like to congratulate all BC Hydro employees for their dedicated service in meeting the needs of our customers and for achieving the vast majority of our performance targets.

In fiscal 2010, we met or exceeded the majority of our financial and non-financial targets. Once again, energy saved through our Power Smart programs surpassed expectations and continued to deliver cost-effective energy over the last fiscal year, producing cumulative energy savings of 1,778 GWh/yr, an increase of 795 GWh/yr over fiscal 2009.

We are particularly pleased with our safety results, having met all our performance targets. In fact, our all-injury frequency rate for fiscal 2010 is a performance record, which we accomplished through improved job planning in the field, the systematic identification of hazards, the introduction of barriers where hazards were identified and most importantly, the commitment of our entire workforce to work safely. Our severity target was also met, with results that were a significant improvement over last year.

We also met our targets in the areas of energy security, customer satisfaction, greenhouse gas emissions and clean energy.

Financially, BC Hydro's net income for fiscal 2010 was $447 million, which exceeds last year's net income of $365 million. We also provided a return on equity of 12.49 per cent to our shareholder.

POWERING OUR PROVINCE

With the province's demand for electricity expected to grow by 20 to 40 per cent over the next 20 years, BC Hydro continued to work to secure a reliable supply of clean power in fiscal 2010 through our conserve more, build more, and buy more strategy.

In fiscal 2010, we continued to make progress towards our goal of meeting 50 per cent of our incremental resource needs through demand side management by 2020—a goal that was increased to 66 per cent by the *Clean Energy Act*.

BC Hydro is also preparing to automate and upgrade its metering systems and electrical grid. This modernization will support our conservation goals by enabling customers to actively manage their energy choices, and adopt new energy and conservation solutions.

Over the next five years and beyond, BC Hydro is focusing on improving the health of our generation assets. In fiscal 2010, BC Hydro made some of its most significant capital investments in decades, totalling $2.4 billion.

One example of the many upgrades to our facilities across the province is our Revelstoke Unit 5 Expansion Project, which will add 500 MW of capacity to our system. Plans to install the fifth and sixth units at Mica will also increase our capacity by a further 500 MW per unit.

Another major piece of B.C.'s clean energy strategy was announced at the end of the fiscal year when the Province gave the go-ahead to Stage 3 of the Site C Clean Energy Project. The project will be the third dam and generating station on the Peace River in northeastern B.C. and a source of clean and renewable energy, producing enough electricity to power approximately 410,000 homes per year.

Along with conserving more and building more, BC Hydro has a target of acquiring up to 5,000 GWh/year of clean, reliable electricity generated in British Columbia. To get there, we announced a number of initiatives in fiscal 2010.

Examples are the Integrated Power Offer to support pulp and paper customers who also generate electricity from biomass, and the Community-Based Biomass Power Call for smaller biomass projects. In addition, BC Hydro recently awarded 25 Electricity Purchase Agreements under the 2008 Clean Power Call, with possibly more agreements to be signed in early fiscal 2011.

Another significant acquisition occurred in February 2010 when the British Columbia Utilities Commission approved BC Hydro's plan to purchase a one-third ownership interest in Teck's Waneta dam and generating facility near Trail. The agreement secured 1,000 GWh/year of clean electricity.

OUR PEOPLE, BUILDING RELATIONSHIPS

With our long and distinguished history in this province, BC Hydro knows that building a sustainable energy future also includes building positive relationships with our communities and stakeholders.

A prime example occurred in June 2009 when the Tsay Keh Dene First Nation accepted a final agreement with the Province and BC Hydro. The agreement addressed historic grievances associated with the construction of the W.A.C. Bennett Dam and creation of the Williston Reservoir in the late 1960s and today exemplifies our ongoing commitment to improving and building relationships with First Nations within BC Hydro's service territory.

Another example is the relationship BC Hydro made with the world during the 2010 Games. Our employees powered the Games reliably and safely, making 2010 the greenest Games in modern history. Employees from across the organization went above and beyond the call of duty, showing the world what we're capable of as a company and acting as ambassadors to this province.

We are proud that BC Hydro is one of the most respected companies in the province. Our talented and dedicated workforce, with its diversity of backgrounds, skills, and expertise, is something we take great pride in and which we are focussed on developing through ongoing training and leadership programs.

On behalf of the Board, we thank all employees for their important contributions to our company and our province.

A NEW ENERGY ERA

Finally, we would like to highlight some of the significant events that have occurred in the period between the end of the fiscal year (March 31) and the release of this annual report.

The Province's *Clean Energy Act*, which was tabled in the Legislature in April 2010 and passed into law at the beginning of June, sets the foundation for the province to become a clean energy powerhouse. BC Hydro has a very large role to play in achieving that objective.

Among other things, the *Act* lays out a plan that includes new investments in clean, renewable energy across the province. It requires new electricity projects to have zero net greenhouse gas emissions, and it ensures that clean or renewable electricity account for at least 93 per cent of our total generation, up from 90 per cent.

One of the most important elements in the *Act* is that it unites us with our strategic partner, the British Columbia Transmission Corporation, effective July 2010.

The new legislation enters us into a new energy era. It builds on our already ambitious plans to refurbish and increase capacity on many of our aging heritage assets; it moves us forward with the Site C Clean Energy Project; and it continues our Demand Side Management Program that will be bolstered by significant upgrades to our metering system and grid.

As the province enters into a new energy era, we are inspired by the successes of the past and the leadership that has navigated the company through all of its achievements. The Board is pleased that going forward BC Hydro will be under the strong leadership of David Cobb, the recently-appointed President and Chief Executive Officer of BC Hydro.

Together, we look forward to another strong year and to continue building a clean energy future for generations of British Columbians, all while fostering economic development and job creation across the province.

Sincerely,

Dan Doyle
Chair

David Cobb
President and CEO

CLEAN ENERGY ACT

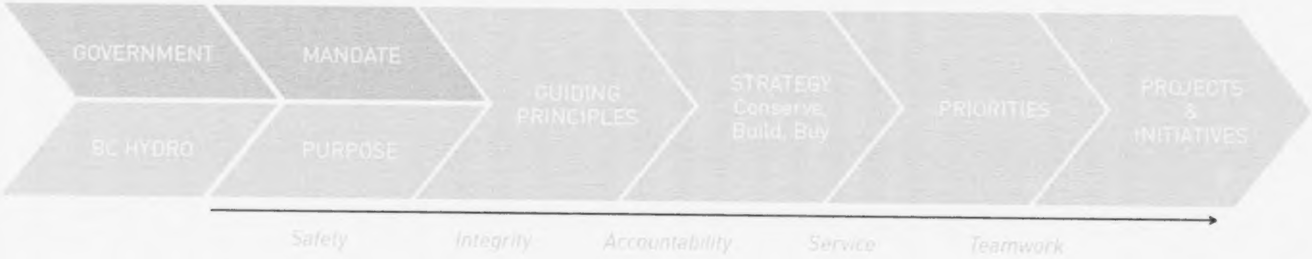
BC Hydro will have a major role to play in British Columbia's *Clean Energy Act*, which became law in June 2010 and sets the foundation for a new future of electricity self-sufficiency, job creation, reduced greenhouse gas emissions, and new investments in clean, renewable energy across the province.

The *Act* advances 16 specific energy objectives by expediting clean energy investments, protecting B.C. ratepayers, ensuring competitive rates, encouraging conservation, strengthening environmental protection and aggressively promoting regional job creation and First Nations' involvement in clean electricity development opportunities.

For more information, please go to www.powerofbc.ca

ORGANIZATION OVERVIEW

OUR STRATEGIC FRAMEWORK



OUR MANDATE

BC Hydro is one of Canada's largest electric utilities. Our mandate includes generating, manufacturing, distributing, supplying, purchasing and selling electricity to meet the need in British Columbia in a cost-effective and reliable manner.

As a provincial Crown corporation, we receive guidance from the Province—as the Shareholder—through several policy instruments, including a Shareholder's Letter of Expectations, the 2002 and 2007 Energy Plans and the recently announced *Clean Energy Act*. The government's expectations are expressed in three essential ways: legislation, policy and instructions.

Legislation: The most important longstanding piece of legislation governing BC Hydro is the *Hydro and Power Authority Act*, which gives us our mandate. Over the decades, the *Act* has been amended as BC Hydro's business operations have evolved. The creation of Powerex to trade electricity reflects this evolution.

The *Utilities Commission Act* gives the British Columbia Utilities Commission (BCUC) the power to regulate BC Hydro to ensure that customers receive safe, reasonable, adequate and fair services. It also ensures that the government, as Shareholder, earns a fair return on its invested capital and that the competitive interests of B.C. businesses are addressed.

BC Hydro's assets also come under the terms of the *BC Hydro Public Power Legacy and Heritage Contract Act*. This *Act* ensures public ownership of BC Hydro's Heritage Resources, which includes BC Hydro's transmission and distribution systems, and all of BC Hydro's existing generation and storage assets, and enabled the establishment of the Heritage Contract. The *Act* also includes any future increases to the capacity and energy capability of these facilities.

In April 2010, the provincial government tabled the *Clean Energy Act*. The *Act* sets the foundation for a new future of electricity self-sufficiency, job creation and reduced greenhouse gas emissions, powered by unprecedented investments in clean, renewable energy across the province. The *Act* builds upon British Columbia's unique heritage advantages and wealth of clean, renewable energy resources. The *Act's* priority areas include:

- ensuring electricity self-sufficiency at competitive rates;
- harnessing B.C.'s clean power potential to create jobs in every region; and
- strengthening environmental stewardship and reducing greenhouse gas emissions.

Policy: The BC Energy Plan puts forward the government's vision and blueprint for the province's energy future. The most recent plan, released in 2007, "A Vision for Clean Energy Leadership," provides guidance to BC Hydro on how it should look to meet the future energy needs of British Columbians.

ORGANIZATION OVERVIEW

The *Clean Energy Act* sets a goal for BC Hydro to acquire 66 per cent of incremental resource needs through energy conservation and efficiency by 2020, while at the same time requiring that:

- all new electricity projects developed in B.C. will have zero net greenhouse gas emissions;
- existing thermal generation power plants will reach zero net greenhouse gas emissions by 2016;
- there will be zero greenhouse gas emissions from coal-fired electricity generation;
- clean or renewable electricity generation will continue to account for at least 93 per cent of total provincial generation, placing B.C. among the top green jurisdictions in the world; and
- the province will be electricity self-sufficient by 2016.

SHAREHOLDER'S LETTER OF EXPECTATIONS

This letter describes the relationships between BC Hydro and the Province, and sets out objectives that the Shareholder wishes BC Hydro to achieve. The Province and BC Hydro review the letter annually and update it as required.

Directions outlined in the February 2009 letter focus on accountability, energy conservation, climate change, stakeholders and First Nations. For more information on this legislation and the policy direction from the provincial government, see the Appendices section of this report.

OUR PURPOSE AND VALUES

BC Hydro's purpose is to provide "Reliable Power, at Low Cost, for Generations." Our purpose, together with our vision outlined in our Guiding Principles, provides us with an enduring foundation for managing our business and allows us to develop and drive our core strategy of conserving, building and buying the electricity British Columbians need. At all times, our values of safety, accountability, integrity, service and teamwork guide our actions.

OUR SHORT-TERM PRIORITIES AND GUIDING PRINCIPLES

BC Hydro has 15 Guiding Principles that were developed and adopted by the Board in 2004. These principles provide an enduring framework for how we manage our business. Several of these principles have been selected as priorities to focus on in the short-term.

Two changes were made to our short-term priorities in the 2009/10 to 2011/12 Service Plan to better reflect our evolving focus and government directions. For fiscal 2010, Reliability (Supply) was renamed Electricity Security (Supply) and Climate Change and Environmental Impact was established as a separate short-term priority from Energy Conservation and Efficiency.

OUR CORE STRATEGY

BC Hydro's core strategy is to conserve, build and buy to provide the electricity British Columbians need. We are focused on these three strategic and operational priorities and in taking action on the initiatives that will make these goals a reality. Conserving is the first and best choice for us to meet B.C.'s forecasted electricity needs. By helping customers be more efficient, use their power wisely, and ultimately use less, we can collectively lower the new supply that will be needed. The second way for us to meet B.C.'s needs is to build by making important reinvestments in our heritage hydroelectric assets and by exploring new large-scale investments, such as Site C, a third hydroelectric facility on the Peace River. The third part of our strategy is to buy more. Even though conservation is anticipated to meet more than half of our future electricity needs, BC Hydro will still consider other cost-effective, made-in-B.C. resource options to meet the balance of our requirements. For more information on our strategy, see our 2010/11 to 2012/13 Service Plan.

STRUCTURED DECISION MAKING

To achieve our purpose and Guiding Principles, BC Hydro continues to integrate financial, environmental, and social considerations (triple bottom line) into how we plan and manage our business. This is included in our decision-making processes across the company and at the Board level.

OUR ORGANIZATIONAL STRUCTURE

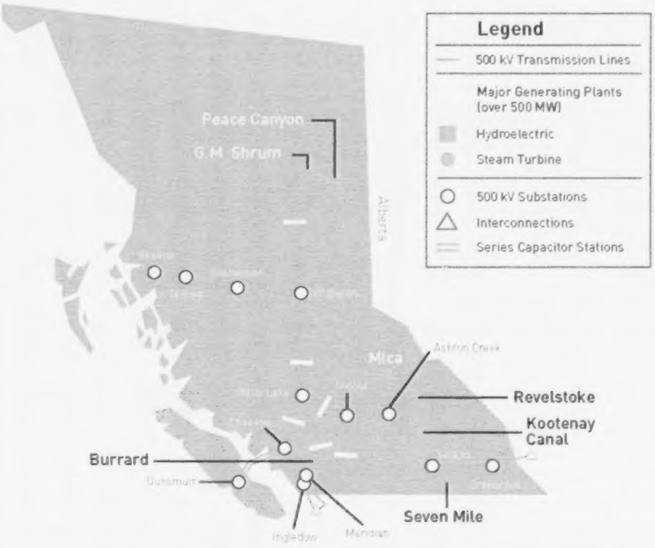
See Corporate Governance (p. 11) for information on BC Hydro's organizational structure.

OUR SYSTEM

BC Hydro is the largest electric utility in British Columbia, operating 31 hydroelectric facilities and three thermal generating plants. Most of BC Hydro's 11,300 megawatts (MW) of installed generating capacity is located away from the province's major population centres.

Our hydroelectric facilities provide 90 per cent of the total electricity we generate—between 42,000 and 52,000 gigawatt hours (GWh) per year over the past five years—and are located throughout the Peace, Columbia and Coastal regions of B.C. Our three thermal generating plants provide the remaining electricity generation.

500 KV TRANSMISSION SYSTEM AND MAJOR GENERATING STATIONS



BC Hydro has corporate centres in Vancouver and Burnaby, and has a presence in more than 50 communities across the province through its regional offices.

We deliver electricity to our customers through a network of over 18,000 kilometres of transmission lines and 57,278 kilometres of distribution lines. This network also includes 892,633 utility poles and 272,572 individual transformers.

BC Hydro also serves 18 communities that are not connected to our integrated system. These non-integrated areas are typically small, remote communities, served by local generating stations (10 diesel stations and one hydro station) owned by BC Hydro, Independent Power Producers (IPPs) or the communities themselves.

To meet the growing demand for electricity, BC Hydro also contracts with IPPs to buy electricity on a long-term basis, and buys power externally in the wholesale electricity markets through Powerex, our energy marketing and trading subsidiary.

CANADIAN ENTITLEMENT

The Columbia River Treaty between Canada and the United States was ratified in 1964. The Treaty resulted in the construction of three dams in British Columbia—the Duncan, Keenleyside and Mica dams —for flood control and to increase hydroelectric generating potential in both countries. The Treaty also gave the U.S. the right to build Libby Dam.

Canada's share (one-half) of the extra power produced in the U.S. as a result of the Canadian projects is called the Canadian Entitlement to Downstream Benefits and is owned by the Province of B.C. and administered by BC Hydro. The Canadian Entitlement varies from year to year, but is generally in the range of 4,400 GWh per year and about 1,250 MW of capacity. The earliest termination date for the Columbia River Treaty is September 2024, subject to either country giving a minimum 10 years notice of its intent to terminate.

CUSTOMERS

BC Hydro serves 95 per cent of B.C.'s population, delivering electricity safely and reliably at competitive rates to approximately 1.8 million customers. Eighty-nine per cent of our customer accounts are residential, with the remainder either commercial or industrial. Each of these three groups consumes roughly one third of the total electricity we supply.

RATES AND REGULATION

The British Columbia Utilities Commission (BCUC) must approve the rates BC Hydro charges for electricity. The rates allow us to recover costs incurred in serving our customers, including earning a return on equity. Both the definition of equity and the method to determine an appropriate return on this equity are defined by Special Directions from the B.C. Government. The Special Directions require annual dividend payments to the B.C. Government of 85 per cent of our net income, adjusted for capitalized finance charges and related amortization, as long as our debt to equity ratio is not greater than 80:20. For more information, see the regulatory process on page 92.

RISKS

BC Hydro is a large and complex business and like for any business of this size there are many inherent risks. Some of the longer term risks that we face include the following: financial risks, the changing need for electricity, aging infrastructure and aging workforce, environmental concerns such as climate change and greenhouse gases, as well as the ever-changing dynamic in the electricity industry.

We plan and build our strategies to mitigate and review these risks periodically. Our plans and strategies, which are articulated in our Annual Service Plan, take these risks into account and attempt to strike a balance between the amount of risk accepted and the cost of further mitigation. More specific information regarding these risks can be found in our 2009/2010 to 2011/12 Service Plan, August Update as well as the Managment Discussion and Analysis on page 58.

WHOLLY-OWNED SUBSIDIARIES

Powerex Corporation is a key participant in energy markets across North America, buying and supplying wholesale power, natural gas, ancillary services, financial energy products and, more recently, environmental products with an ever-expanding list of trading partners. Established in 1988, its energy marketing and trade activities help optimize BC Hydro's electric system resources and provide significant economic benefits to the people of British Columbia.

Powertech Labs Inc., BC Hydro's subsidiary that specializes in clean energy consulting, testing and systems integration, has been serving electrical, oil and gas companies and automotive and electrical equipment manufacturers since 1989. It operates as a separate, for-profit, commercial entity. In addition to providing technical services to BC Hydro, Powertech serves a large number of clients in energy-related sectors across North America, Asia, Europe, South America and beyond.

STRATEGIC PARTNERS

BRITISH COLUMBIA TRANSMISSION CORPORATION (BCTC)

Since 2003, the British Columbia Transmission Corporation has operated, managed and planned BC Hydro's transmission system on behalf of BC Hydro and other power providers in B.C. The new *Clean Energy Act* will consolidate BC Hydro and BC Transmission Corporation to provide a single entity that will plan and deliver the clean energy required to meet British Columbia's growing demand for electricity while fostering job creation throughout the province and helping reduce greenhouse gas emissions.

ACCENTURE BUSINESS SERVICES OF BRITISH COLUMBIA

BC Hydro implemented an outsourcing strategy with Accenture Business Services of British Columbia (ABSBC) under a 10-year agreement, effective April 2003. On any given day, thousands of transactions are handled by ABSBC in the areas of Customer Care, Information Technology, Human Resources, Financial Systems and Building and Office Services. Together with ABSBC, BC Hydro has been able to improve performance, advance customer satisfaction and achieve total gross savings of approximately $190 million to date.

INDEPENDENT POWER PRODUCERS (IPPS)

BC Hydro's electricity procurement plays a critical role in reaching the BC Energy Plan's objective of achieving electricity self-sufficiency by 2016, as well as meeting the B.C. Government's policy actions for maintaining competitive rates, clean or renewable electricity and the development of a vibrant and competitive IPP sector.

Currently BC Hydro has 89 Electricity Purchase Agreements (EPAs) with IPPs, including four EPAs in non-integrated areas, representing about 14,244 GWh/year of energy purchases. Of these agreements, 63 projects are in operation with several more scheduled to reach commercial operation by the end of fiscal 2011. During fiscal 2010, IPPs provided 8,893 GWh of energy to the BC Hydro system, which accounted for about 16 per cent of total domestic electricity requirements. We will continue to collaborate with IPPs, customers, government and First Nations to improve the procurement process for electricity. For more information on BC Hydro's power acquisition activities, see page 40.

CORPORATE GOVERNANCE

DIRECTORS, OFFICERS AND EXECUTIVE OF BC HYDRO

The BC Hydro Board of Directors oversees the conduct of business and supervises management, which in turn is responsible for the day-to-day operations of BC Hydro. Directors are appointed by the B.C. Government to bring special skills and experience to the Board's deliberations.

The Board's responsibilities include:

- ensuring there is a strategic and business planning process, and then reviewing, validating and endorsing a strategy for the corporation and monitoring its implementation;
- ensuring effective controls and appropriate governance are in place as part of its Management oversight; and,
- assessing the principal risks associated with the corporation's business and ensuring that the appropriate processes and systems are in place to mitigate risk.

BC Hydro regularly reviews and updates its governance framework to ensure the various components meet the Corporation's ongoing business needs while being consistent with government's Guiding Principles on Crown Agency Corporate Governance.

The Board acts in accordance with the Best Practices Guidelines for Governance, and Disclosure Guidelines for Governing Boards of B.C. Public Sector Organizations.

MEMBERSHIP OF BOARD OF DIRECTORS AND BOARD COMMITTEES

The Board of Directors of BC Hydro is composed entirely of individuals who are independent of management. Many of the Board's responsibilities are assisted by Committees of the Board, Task Groups, or Advisory Committees, which make recommendations to the Board of Directors. These Committees and Task Groups are comprised entirely of Board Members.

The Board of Directors of BC Hydro's wholly-owned subsidiary, Powerex Corporation, has appointed an Audit and Risk Management Committee composed of members of the Powerex Board of Directors.

Terms of reference for the Board and its Committees, the Chair, Directors, the Chief Executive Officer and the Corporate Secretary are published on the BC Hydro website. The number of Board and Committee meetings in fiscal 2010 are set out in BC Hydro's corporate governance disclosure. In addition to the number of Board and Committee meetings, Board responsibilities, Director biographies and Director attendance records are also disclosed.

BOARD OPERATIONS

Subscribing to a principle of continuous improvement, Board performance and its make-up is evaluated annually to ensure that the Board of Directors performs its due diligence and policy oversight role in the most effective manner. For more information, visit Board's roles and responsibilities (bchydro.com/about/company_information/board_committees.html).

CODE OF CONDUCT

To promote awareness and understanding of the standards of conduct that BC Hydro expects, we have a Director and Employee Code of Conduct, which includes information on avoiding conflicts of interest. For more information, visit BC Hydro's Code of Conduct (bchydro.com/about/company_information/code_of_conduct.html).

GOVERNANCE AND DISCLOSURE GUIDELINES FOR BRITISH COLUMBIA PUBLIC SECTOR BOARDS

Best Practice Guidelines on Governance and Disclosure were issued by government in 2005. BC Hydro's response to the 12 disclosure requirements is updated annually and posted on our website.

ORGANIZATIONAL STRUCTURE—EXECUTIVE OF BC HYDRO

BC Hydro's organizational structure is designed to ensure we deliver on our six short-term priorities and to facilitate coordination among business functions. The structure includes operational business groups, a corporate function and two subsidiaries, Powerex and Powertech (for more information, see our subsidiaries on page 126). This year, we have shifted the way in which we count our employee population. Instead of using a traditional headcount, we have shifted to the use of a full-time equivalent count (FTE) measure based on hours worked, which accounts more accurately for part-time and seasonal work performed for the company. The full-time equivalent measure for fiscal 2010 is 5,673. Specific full-time equivalent measures for each business group are included in the chart below.

The Powertech President and COO reports to the Chair of the Powertech Board. All other executives report to BC Hydro's President and CEO.

Minister Responsible
The Honourable Bill Bennett (Energy, Mines and Petroleum Resources) (effective June 11, 2010)
The Honourable Blair Lekstrom (prior to June 11, 2010)

Board of Directors
Dan Doyle (Chair) (effective July 16, 2009)
Mossadiq Umedaly (prior to July 16, 2009)

President and CEO
David Cobb (effective May 25, 2010)

Acting President and CEO
Bev Van Ruyven (effective January 1, 2010 until May 24, 2010)

President and CEO
Bob Elton (prior to January 1, 2010)

FTE: 9

CUSTOMER CARE AND CONSERVATION

Cam Matheson, Acting Executive Vice President (effective January 1, 2010)

Bev Van Ruyven, Executive Vice President (prior to January 1, 2010)

Provides long-term resource planning and acquisition and customer-care services, and delivers Power Smart programs.

FTE: 467

SAFETY, HEALTH AND ENVIRONMENT

Ray Stewart, Chief Safety, Health and Environment Officer and Director of Dam Safety

Responsible for strategic direction and governance in relation to occupational safety and health, environment and sustainability, enterprise risk, emergency management, security and dam safety matters.

FTE: 53

CORPORATE AFFAIRS

Susan Yurkovich, Senior Vice President

Responsible for marketing and strategic communications, community and stakeholder engagement, community investment, as well as corporate projects, including Site C and the 2010 Olympic Initiative.

FTE: 178

FIELD OPERATIONS

Leigh Ann Shoji-Lee, Senior Vice President

Delivers electricity safely and reliably to customers, including extension and connection services, as well as emergency response and restoration services.

FTE: 2,583

ENGINEERING, ABORIGINAL RELATIONS AND GENERATION

Chris O'Riley, Senior Vice President

Responsible for BC Hydro's generation assets, engineering services for BC Hydro and BCTC and for leading the establishment of mutually beneficial relationships with Aboriginal peoples.

FTE: 1,843

Executive Chair of Powertech
Bob Elton

POWERTECH

Eamonn Percy, President and COO (prior to June 23, 2010)

A wholly-owned subsidiary of BC Hydro, Powertech's business is solving technical problems with power equipment and systems throughout their life cycle.

FTE: 120

POWEREX

Teresa Conway, President and CEO

A wholly owned subsidiary of BC Hydro, Powerex's energy marketing and trade activities help optimize BC Hydro's electric system resources.

FTE: 179

CORPORATE HUMAN RESOURCES*†

Debbie Nagle, Chief HR Officer

Responsible for attraction and workforce planning, organizational effectiveness and benefits programs.

FTE: 62

FINANCE AND CORPORATE RESOURCES

Charles Reid, Executive Vice President and CFO

Responsible for several enterprise-wide functions, including finance, regulatory, risk management, information technology, procurement, legal, properties and strategy.

FTE: 415

**MPIDs are typically costed and bundled with Corporate HR in the payroll and finance systems, and may have been reported as 'with' Corporate HR in the past.*

† 2010 VANOC Secondees were reported in the BCH finance cubes as 'with' Corporate HR, but were simply held there for costing purposes.

BOARD OF DIRECTORS

MANDATE: The Board is responsible for overseeing the conduct of business, supervising management and ensuring all major issues affecting the Corporation are given proper consideration. The Board, through the Chief Executive Officer, sets the standards of conduct for BC Hydro and ensures the safety of its operations.

CHAIR: Dan Doyle (effective July 16, 2009); Mossadiq Umedaly (prior to July 16, 2009)

MEMBERS: Chief Kim Baird, James Brown, Peter Busby, Wanda Costuros, Jonathan Drance, Tracey McVicar, Nancy Olewiler, Peter Powell, John Ritchie (appointed November 1, 2009),Walter Saponja (resigned October 1, 2009), Donald Triggs (resigned January 31, 2010).

SPECIAL ADVISOR: Bob Elton (effective January 1, 2010)

COMMITTEES OF THE BOARD

EXECUTIVE COMMITTEE	**PURPOSE:** The Executive Committee meets only in special circumstances. It has most of the powers of the Board to act in situations when, for timing reasons, a Board meeting cannot be scheduled. **CHAIRMAN:** Dan Doyle (effective July 16, 2009); Mossadiq Umedaly (prior to July 16, 2009) **MEMBERS:** Wanda Costuros, Jonathan Drance
AUDIT AND RISK MANAGEMENT COMMITTEE	**PURPOSE:** The Audit and Risk Management Committee assists the Board in fulfilling its obligations and oversight responsibilities relating to the audit process, financial reporting, the system of corporate controls, governance of the Corporation's pension plans, and various facets of risk management. **CHAIR:** Tracey McVicar **MEMBERS:** Wanda Costuros, Peter Powell, Walter Saponja (resigned October 1, 2009), Mossadiq Umedaly (prior to July 16, 2009), Dan Doyle (effective July 16, 2009)*
CORPORATE GOVERNANCE COMMITTEE	**PURPOSE:** The Corporate Governance Committee assists the Board by ensuring that BC Hydro develops and implements an effective approach to corporate governance, which enables the business and affairs of the Corporation to be carried out, directed and managed with the objective of enhancing Shareholder value. **CHAIR:** Jonathan Drance **MEMBERS:** Tracey McVicar, Donald Triggs (resigned January 31, 2010), Mossadiq Umedaly (prior to July 16, 2009), Dan Doyle (effective July 16, 2009)*
HUMAN RESOURCES AND SAFETY COMMITTEE (renamed in August 2009)	**PURPOSE:** The Human Resources Committee assists the Board in fulfilling its obligations relating to human resources and compensation issues, related specifically to senior management and generally to the Corporation. The Committee also monitors safety performance. **CHAIR:** Nancy Olewiler **MEMBERS:** James Brown, Jonathan Drance, Donald Triggs (resigned January 31, 2010), Mossadiq Umedaly (prior to July 16, 2009), Dan Doyle (effective July 16, 2009)*
CAPITAL PROJECTS COMMITTEE	**PURPOSE:** The Capital Projects Committee assists the Board in fulfilling its obligations and oversight responsibilities relating to the Corporation's long-term capital plans, capital budgets and capital projects, including risk identification and management, dam safety, Aboriginal Relations and negotiations, and transmission projects. **CHAIR:** Walter Saponja (resigned October 1, 2009); Peter Powell (effective October 1, 2009) **MEMBERS:** Chief Kim Baird, Jonathan Drance, Peter Powell (appointed Acting Chair, October 1, 2009), John Ritchie (appointed November 5, 2009), Mossadiq Umedaly (prior to July 16, 2009), Dan Doyle (effective July 16, 2009)*
CONSERVATION AND CLIMATE ACTION COMMITTEE (renamed and elevated to Committee status November 5, 2009)	**PURPOSE:** The Conservation and Climate Action Committee of the Board of Directors assists the Board by monitoring and supporting the implementation of an energy conservation strategy as described by the BC Energy Plan, as well as climate action and other environmental matters. **CHAIR:** Peter Busby **MEMBERS:** Chief Kim Baird, Nancy Olewiler, Mossadiq Umedaly (prior to July 16, 2009), Dan Doyle (effective July 16, 2009)*

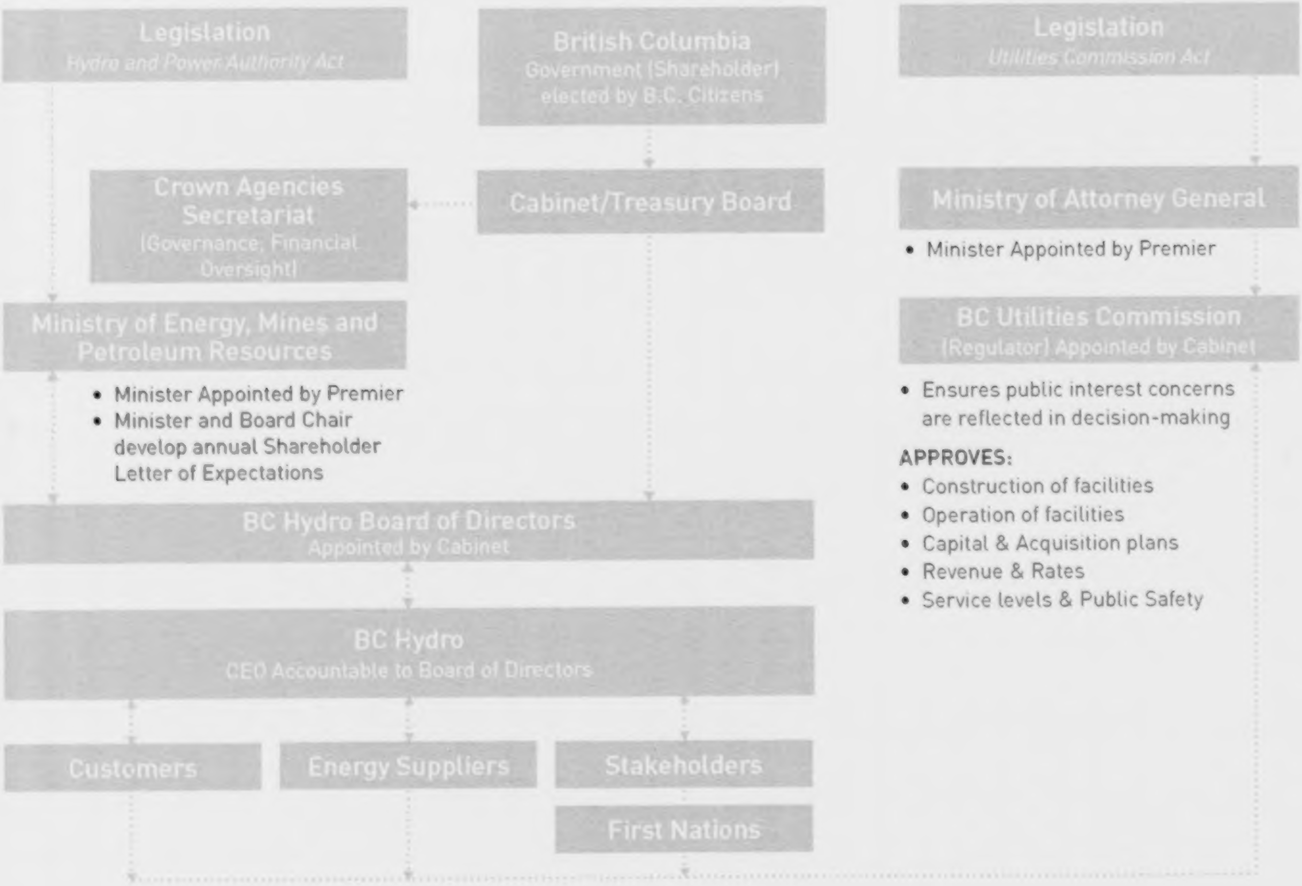
ADVISORY COMMITTEE

THE PEACE RIVER / WILLISTON RESERVOIR ADVISORY COMMITTEE	The Board appoints Advisory Committees from time to time. This Advisory Committee provides advice and facilitates two-way communications between the Peace/Williston community and BC Hydro. Committee membership is composed of local community leaders, providing equitable representation from geographical and special interest groups within the region. **CHAIR:** Jack Weisgerber **MEMBERS:** Lori Ackerman (Fort St. John), Rick Hopkins (Fort St. John), Wayne Dahlin (Dawson Creek, appointed May 22, 2009), Don Hicks (Chetwynd, appointed May 22, 2009), Gwen Johansson (Hudson's Hope), Terry Johnson (Taylor), Kevin Neary (Mackenzie), Leigh Summer (Hudson's Hope), Stephanie Killam (Mackenzie, appointed May 22, 2009), Chief Ella Pierre (Tsay Keh Dene, appointed May 22, 2009), Ron Terlesky (Mackenzie), Donny Van Somer (Kwadacha)

	SUBSIDIARIES
POWEREX CORPORATION Board meetings: 5 Audit and Risk Management Committee: 5 Strategy session: 1	**CHAIR**: Wanda Costuros **BOARD MEMBERS**: James Brown, Bob Elton, Peter Powell, Walter Saponja (resigned October 1, 2009), Mossadiq Umedaly (prior to July 16, 2009), Dan Doyle (effective July 16, 2009)* **OFFICERS**: Wanda Costuros (Chair), Teresa Conway (President and CEO), Joe Miller, (Chief Financial Officer), David Facey (Corporate Secretary)
POWERTECH LABS INC. Board meetings: 7	**EXECUTIVE CHAIR**: Mossadiq Umedaly (prior to July 16, 2009), Dan Doyle (July 16, 2009–May 5, 2010), Bob Elton (effective May 5–June 1, 2010) **BOARD MEMBERS**: Brenda Eaton, Nancy Olewiler **OFFICERS**: Mossadiq Umedaly (Executive Chair, prior to July 16, 2009), Dan Doyle (Chair, effective July 16, 2009), Eamonn Percy (President and Chief Operating Officer), David Facey (Corporate Secretary).

The Board Chair is an ex-officio member of all Committees.

SHAREHOLDER-REGULATORY RELATIONSHIP FRAMEWORK


Legislation
Hydro and Power Authority Act
British Columbia
Government (Shareholder) elected by B.C. Citizens
Legislation
Utilities Commission Act
Crown Agencies Secretariat
(Governance; Financial Oversight)
Cabinet/Treasury Board
Ministry of Attorney General
Ministry of Energy, Mines and Petroleum Resources
BC Utilities Commission
(Regulator) Appointed by Cabinet
BC Hydro Board of Directors
Appointed by Cabinet
BC Hydro
CEO Accountable to Board of Directors
Customers
Energy Suppliers
Stakeholders
First Nations

- Minister Appointed by Premier
- Minister and Board Chair develop annual Shareholder Letter of Expectations

- Minister Appointed by Premier

- Ensures public interest concerns are reflected in decision-making

APPROVES:

- Construction of facilities
- Operation of facilities
- Capital & Acquisition plans
- Revenue & Rates
- Service levels & Public Safety

REPORT ON PERFORMANCE

This section reports on our short-term priorities and targets as outlined in the 2009/10 to 2011/12 Service Plan. Each of our Guiding Principles remain unchanged, and combined with our purpose and five values, continue to provide the framework that governs how we operate. For our short-term priorities, we assign specific targets and measures to assess progress. All of BC Hydro's 15 Guiding Principles including the short-term priorities are referenced in the Appendices.

Guiding Principles	Objectives and Description
Safety	**To provide the safest work environment compared with the best performers in any industry, where none of our employees will experience a serious safety injury.** BC Hydro is committed to integrating safety into all aspects of our business, using a system of risk mitigation that includes quality design, construction, maintenance and education programs.
Reliability (Customer)	**To provide best-in-class reliability by customer segment.** Customer Reliability means the delivery of an uninterrupted supply of electricity to BC Hydro customers as measured at the point of delivery—usually a customer's meter.
Electricity Security (Supply)	**To meet all domestic needs.** Electricity Security (Supply) means ensuring that all the infrastructure components are available and ready to generate and deliver electricity for our customers. Generating facilities include BC Hydro's Heritage Assets, IPPs and other contracted generators.
Climate Change and Environmental Impact	**To have no net incremental environmental impact by 2024 when compared with 2004.** BC Hydro aims to be an industry leader in environmental sustainability by addressing climate change and by reducing our overall environmental impact.
Energy Conservation and Efficiency	**To develop and foster an energy conservation and efficiency culture in B.C. that leads to customers choosing to make a dramatic and permanent reduction in the use of electricity.** Demand-side management is a critical part of BC Hydro's strategy to address the electricity gap, reduce energy costs and increase energy efficiency.
Financial Targets	**To maintain low costs for electricity customers in B.C. over the long term, while consistently delivering 100 per cent of forecast net income.** It is our goal to deliver on our financial targets for both our Shareholder and our customers. As the Shareholder, the Province's interest is in achieving a stable and predictable return on its investment in BC Hydro. Our customers—as well as our Shareholder—are interested in maintaining competitive electricity rates without compromising safety, reliability or environmental performance.
Customer Satisfaction	**To lead by offering extraordinary value and service.** BC Hydro is committed to offering extraordinary value and service. Customer Satisfaction level is a key indicator of how well our customers feel we are performing. Since customers' needs and expectations change over time, we continually focus on improvement while maintaining core service levels during times of change to ensure that customer satisfaction remains strong.
People	**To be the top employer for generations.** We must adapt our workforce to current economic conditions while ensuring that we have the people we need to deliver on our Guiding principles.

HOW WE MEASURE OUR PERFORMANCE

BC Hydro uses a series of measures to guide business performance and progress. Some of these measures are tracked monthly, while others are tracked quarterly, semi-annually and annually. BC Hydro continues to develop leading measures where practical to determine if progress on meeting our goals is on track and to identify where adjustments need to be made. Measures are results-based to provide a more accurate evaluation on our performance. Where possible, we also participate in benchmarking studies to determine where improvement may be required.

A LOOK BACK ON PERFORMANCE FOR FISCAL 2010

Guiding Principles	Performance Measure	F2008 Actual	F2009 Actual	F2010 Target	F2010 Actual	F2011 Target	F2012 Target	F2013 Target
SAFETY	**Severity** (Number of calendar days lost due to injury per 200,000 hours worked)	39	32	23	18.8	20	17	15
	All Injury Frequency (Number of employee injury incidents per 200,000 hours worked)	2.8	1.4	2.3	1.2	1.3	1.3	1.2
RELIABILITY (CUSTOMER)	**CAIDI** (hours)	2.24	2.47	2.15	2.28	2.15 (+/-10%)	2.15 (+/-10%)	2.15 (+/-10%)
	SAIFI (frequency)	1.52	1.67	1.27	1.52	1.22 (+/-10%)	1.22 (+/-10%)	1.22 (+/-10%)
	CEMI-4 (%)	8.56	11.57	8.50	13.09	8.00 (+/-10%)	8.00 (+/-10%)	8.00 (+/-10%)
ELECTRICITY SECURITY (SUPPLY)	**Winter Generation Availability Factor** (%)	94.9	96.4	96.3	97.6	96.4	96.4	96.4
CLIMATE CHANGE & ENVIRONMENTAL IMPACT	**Clean Energy** (%)	94	94	90	93	93[1]	93	93
	Greenhouse Gas Emissions (million tonnes CO_2e)	1.50	1.46	1.55	1.31	1.50	1.45	1.40
	Carbon Neutral Program Emissions (million tonnes)	0.0242	0.0273	0.0265[2]	0.0299	0.0260[2]	0.0251[2]	0.0237
ENERGY CONSERVATION & EFFICIENCY	**Demand-Side Management** (GWh/year, cumulative since F2008)	326	983	1,700	1,778	2,300[3]	3,400[3]	4,200[3]
CUSTOMER SATISFACTION	**CSAT Index** (% of customers satisfied or very satisfied)	90	90	80	90	83	83	83
	Billing Accuracy (% of accurate bills)	98.5	98.5	98.2	98.5	98.2	98.2	98.2
	First Call Resolution (% of customer calls resolved first time)	71	75	71	74	71	71	71
PEOPLE	**Vacancy Rate** (%)	8.7	6.9	8.0	5.5	N/A[4]	N/A[4]	N/A[4]
	Employee Engagement[5] (%)	51	62	N/A	N/A[6]	62	N/A[6]	64

A LOOK BACK ON PERFORMANCE FOR FISCAL 2010 *continued*

Guiding Principles	Performance Measure	F2008 Actual	F2009 Actual	F2010 Target	F2010 Actual	F2011 Target	F2012 Target	F2013 Target
FINANCIAL	**FINANCIAL EFFICIENCY**							
	Net Income (After Regulatory Accounts) ($ in millions)	369	365	452	447	609	660	640
	Return on Assets[7] (%)	6.5	5.8	5.2	5.2	6.2	6.3	6.2
	Return on Regulatory Equity (%)	11.33	11.75	12.54	12.49	14.37	14.37	12.74
	EBIT Interest Coverage[7]	1.85	1.72	1.85	1.96	2.08	2.00	1.80
	Debt to GAAP Equity (%)	80	81	80	80	80	80	80
	OPERATIONAL EFFICIENCY							
	Operating Costs[8] (non-fuel)/MWh Delivered ($)	11.14	13.27	15.43	15.00	N/A	N/A	N/A
	Operating Costs[8] (non-fuel)/ Transmission and Distribution Line km ($)	8,057	9,251	10,375	9,933	N/A	N/A	N/A
	Operating Costs[8] (non-fuel)/ Customer ($)	344	387	432	415	N/A	N/A	N/A
	Operating Cash Flow Post Dividend to Net Capital Expenditure (%)	47	44	27	57	N/A	N/A	N/A
	Transmission and Distribution Capital Expenditure/ Transmission and Distribution Line km ($)	8,597	12,317	12,608	11,863	N/A	N/A	N/A

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[1] Reflects the new target ordered in the *Clean Energy Act*, passed in June 2010.

[2] Carbon Neutral Program Emission targets have been recalibrated from the F2010 – F2012 Service Plan to reflect additional data on building emissions. BC Hydro has been proactively developing programs and initiatives to reduce carbon neutral emissions, including fleet greening, facility improvements and employee engagement.

[3] Demand-side management annual cumulative targets align with the B.C. Energy Plan's 66 per cent energy conservation and efficiency target and the *Utility Commission Act* amendments, which required BC Hydro to pursue all cost-effective demand-side measures. The targets provided here are based on the 2008 LTAP Evidentiary Update and actual annual results may vary significantly based on the timing and form of new rate structures approved by the BCUC, customer response to price signals and the timing of adoption of codes and standards regulations. By fiscal 2013, approximately 29 per cent of the cumulative savings will relate to rate structure changes and 22 per cent to codes and standards.

[4] The Vacancy Rate performance measure, which has been used in past Service Plans to measure the number of positions to fill as a proportion of our total workforce, will no longer be reported as BC Hydro nears its optimal staffing levels, making the metric less important at this time.

[5] Employee Engagement was formerly expressed as an overall mean on a five point scale on an Employee Engagement Survey from "strongly agree" to "strongly disagree". Effective F2009, Employee Engagement is expressed by overall "percent favourable" defined as the percentage of respondents who "strongly agree" or "agree" with survey statements. The fiscal 2008 and fiscal 2009 actual scores for Employee Engagement using the previous format were 3.28 and 3.61, respectively.

[6] As of fiscal 2010, the Employee Engagement Survey is performed every two years.

[7] The calculation for EBIT has been revised to use Net Income to properly reflect BC Hydro's income performance and to make the measure comparable to other companies. Previously BC Hydro used Net Income before regulatory transfers in its EBIT calculation. Prior years Return on Assets and EBIT Interest Coverage have been restated to conform with the current methodology.

[8] Operating costs exclude demand-side mangement, Site C and other regulatory expenditures as these are not related to efficiency, and exclude any fuel associated with the cost of energy.

NEW SERVICE PLAN MEASURES FOR FISCAL 2010

BC Hydro uses a variety of measures to guide business performance and progress and to evaluate whether a particular short-term priority is on track. We review our reporting framework regularly to ensure we maintain a comprehensive overview of our performance.

For fiscal 2011, we have made a few changes which are noted below.

ELECTRICITY SECURITY (SUPPLY)

	F2010 TARGET	F2011 TARGET	F2012 TARGET
Forecast Supply-Demand Balance (MW)	0	0	0

Forecast Supply-Demand Balance provides a distribution of probable net system surplus or deficit under peak annual loads. BC Hydro plans to be able to meet the peak load using firm resources with 90 per cent probability of exceedance. In other words, we should have enough firm resources to meet the peak load nine years out of 10. In other years, we will rely on non-firm sources to meet capacity constraints.

FINANCIAL TARGETS

	F2010 TARGET	F2011 TARGET	F2012 TARGET
Financial Efficiency			
Total Operating Costs (After Regulatory Accounts) ($ millions)	720	697	704

DISCONTINUED MEASURES FOR FISCAL 2011

FINANCIAL TARGETS

Following a review of our financial target measures, we have rationalized the number of financially-focused measures and replaced those noted below with a single metric: Total Operating Costs (After Regulatory Accounts), outlined in the New Measures for the fiscal 2011 section above.

OPERATIONAL EFFICIENCY

Operating Costs (non-fuel)/MWh Delivered ($)
Operating Costs (non-fuel)/Transmission and Distribution Line km ($)
Operating Costs (non-fuel)/Customer ($)
Operating Cash Flow Post Dividend to Net Capital Expenditure (%)
Transmission and Distribution Capital Expenditure/Transmission and Distribution Line km ($)

PEOPLE

BC Hydro has removed the Vacancy Rate performance measure, which has been used in past Service Plans to measure the number of positions to fill as a proportion of our total workforce. This measure is largely influenced by the degree of organizational growth and attrition, and with BC Hydro now nearing its optimal staffing levels, and currently experiencing a low rate of attrition, this metric is less important at this time.

CHANGES TO MEASURES FOR FISCAL 2011

PEOPLE

As of fiscal 2009, the Employee Engagement Survey is performed every two years, and will be expressed by overall "percentage favourable" as defined as a percentage of respondents who strongly agree or disagree with survey statements. Employee engagement was formerly expressed as a mean score out of five on an employee engagement survey.

SAFETY

GUIDING PRINCIPLE:

To provide the safest work environment compared with the best performers in any industry, where not one of our employees experience a serious work-related injury.

Walt Greeley (3rd from right), Abbotsford underground crew leader, recipient of this year's Don McEwen Award of Distinction in Safety, with his team members at the award reception in February 2010.

BC Hydro recognizes that the operation of the electrical power system can be hazardous, and we have worked diligently over fiscal 2010 to mitigate the impact of these hazards by identifying them, implementing safe design and barriers, and using construction, maintenance and education programs to protect against these incidents. Producing and delivering electricity safely involves keeping a well-maintained electrical system that is safe for workers and the public. This includes preventing incidents such as vandalism and theft, and anticipating and responding to the impacts of natural disasters such as storms, floods and forest fires.

STRATEGIES IN THE 2009/10–2011/12 SERVICE PLAN:

- aim to reduce the frequency of serious work-related injuries, such as electrical contacts and falls from height;
- ensure safety is factored into the design of any new construction or reconstruction of operating systems and facilities;
- involve formalized hazard identification and documentation in all work planning activity;
- systematically include hazard identification practice in development of work procedures;
- promote rigorous job observation to ensure that appropriate hazard identification has occurred and that appropriate barriers are in place; and
- thoroughly review barriers and their effectiveness while investigating incidents that have occurred.

SAFETY

EMPLOYEE SAFETY

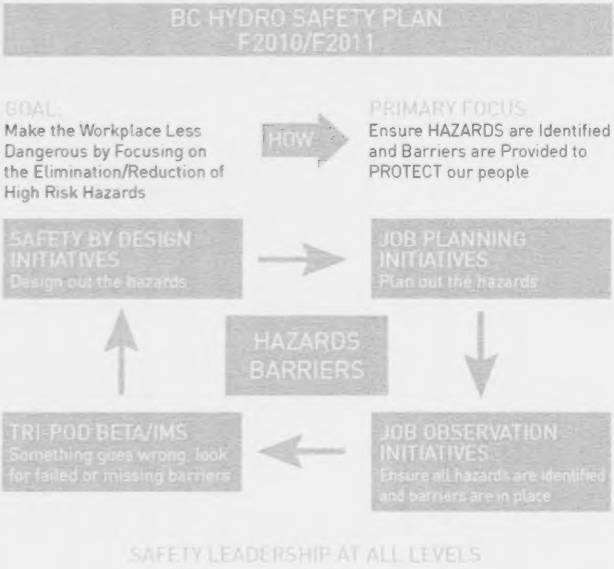
We are making the workplace less dangerous by eliminating or reducing hazards and hazardous activities. While risk issues are still present, a concerted effort is being made at all levels and in all work areas to focus on safety matters, such as identifying the hazards, putting barriers in place, and consistently applying appropriate administrative or work procedures. Special emphasis on exposure and potential for serious injury has also had an impact on the level of performance. BC Hydro's Corporate Safety Plan is based on the following four "pillars":

- **Safety by Design** is an approach that introduces safety control measures into the design stage of projects and eliminates hazards to the extent possible, through the expected life of the facility being built. The concepts are being applied throughout BC Hydro, as well as to BC Transmission Corporation and external design consultants.
- **Job Planning** activities now focus on systematic identification and documentation of hazards before the work starts. Enhanced job activity sheets have been put into use, training materials developed, and training sessions have begun.
- **Job Observation** activities are tracked to ensure that safety is a conscious and deliberate part of the conversations between field managers and their employees. Through this process, adherence to intended rules and work practices is assured and reinforced.
- **Incident Investigations** are undertaken when something goes wrong and an incident does occur. We continue to improve our incident investigation process, in order to learn from the incidents and provide more effective barriers in the future.

The multi-year Safety Plan, which focuses on designing out hazards and improving field-related identification of hazards, backed by significantly improved planning procedures and monitoring for consistent application of safe work practices, is having an impact. The organization-wide commitment has been impressive.

INJURY STATISTICS

BC Hydro experienced some safety performance records this year and have continued to focus on reducing the frequency of serious work-related injuries such as electrical contacts and falls from height. There has been a noticeable reduction in lost time injury volume and most events have resulted in minimal time loss. However, we have still experienced a few very serious events during the year. One such case was an arc flash incident in late December, in a Vancouver manhole, that resulted in burn injuries to two crew members. The investigation into this incident is nearing completion.

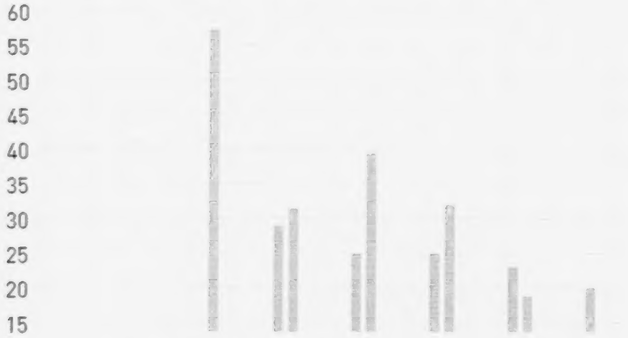

BC HYDRO SAFETY PLAN
F2010/F2011
GOAL:
Make the Workplace Less Dangerous by Focusing on the Elimination/Reduction of High Risk Hazards
HOW
PRIMARY FOCUS
Ensure HAZARDS are Identified and Barriers are Provided to PROTECT our people
SAFETY BY DESIGN INITIATIVES
Design out the hazards
JOB PLANNING INITIATIVES
Plan out the hazards
HAZARDS
BARRIERS
JOB OBSERVATION INITIATIVES
Ensure all hazards are identified and barriers are in place
TRI-POD BETA/IMS
Something goes wrong, look for failed or missing barriers
SAFETY LEADERSHIP AT ALL LEVELS

SAFETY

SEVERITY

Number of days lost due to injury per 200,000 hours worked

lower is better



	F2006	F2007	F2008	F2009	**F2010**	F2011
Target	N/A	29	25	25	23	20
Actual	57.3	31.4	39.3	32.0	18.8	

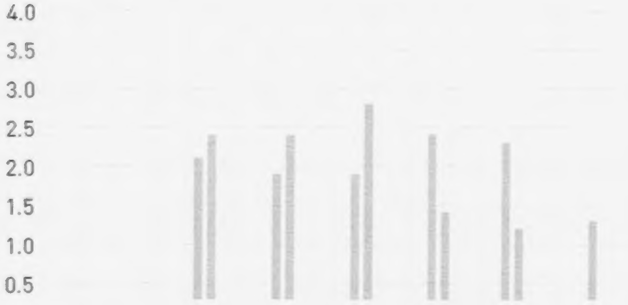
Severity is a standard Canadian Electricity Association (CEA) measure and is defined as the number of calendar days lost due to injury per 200,000 hours worked. The Severity metric does not include data on fatal incidents. One or two injuries can have a major impact on severity.

Severity has improved significantly in fiscal 2010. In order to address serious incidents, BC Hydro has focused its safety efforts on ensuring hazards are identified and barriers provided, through the four pillars of the Corporate Safety Plan—Job Planning, Job Observation, Incident Investigation, and Safety by Design. In fiscal 2010, we experienced a few very serious events, but there has been a noticeable reduction in lost-time injury volume and most events have involved minimal time loss.

ALL INJURY FREQUENCY

Number of injuries per 200,000 hours worked

lower is better



	F2006	F2007	F2008	F2009	**F2010**	F2011
Target	2.1	1.9	1.9	2.4	2.3	1.3
Actual	2.4	2.4	2.8	1.4	1.2	

All Injury Frequency (AIF) is also a standard CEA measure and is defined as the total number of employee Medical Aids and Disabling injuries occurring in the last 12 months per 200,000 hours worked. Medical Aid injuries are those where a medical practitioner has rendered services beyond the level defined as "first aid" and the employee was not absent from work after the day of the injury. Disabling injuries are those where the employee is absent beyond the day of injury.

BC Hydro has had an unprecedented year in terms of injury volume reduction and sustained performance with the result that we exceeded our annual target by nearly 50 per cent. By remaining focused on serious incident reduction, we have experienced benefits in terms of impact on the volume of less invasive incidents without lost time.

The CEA composite AIF rate in 2008 was 2.9 and the calendar year report for 2009 will be available in June 2010.

Both AIF and Severity metrics, as defined in the CEA Standard, are generally harmonized with the U.S. Occupational Safety and Health Administration Standards for safety statistics.

PUBLIC SAFETY

Public awareness, education and training are an important part of BC Hydro's efforts to manage public safety risks related to two key hazards—contact with power lines and water hazards around our power generation facilities. Our key target audiences for electrical safety education and training are trades workers, first responders and youth.

In fiscal 2010, BC Hydro delivered 169 electrical safety workshops to almost 2,900 trades workers and 30 workshops to more than 500 first responder personnel (firefighters, police, paramedics), including 14 'Electrical Safety for Firefighters' workshops that Fire Training Officers in turn deliver to firefighters. BC Hydro also collaborated with the British Columbia Transmission Corporation and the Ministry of Forests to create an electrical safety training program for forest firefighters.

BC Hydro launched a new advertising campaign to promote 'Three Keys of Electrical Safety' focused on trades workers such as roofers, carpenters, painters, truck drivers and crane and excavation operators. Further, to improve communication to the public about water and electrical safety, BC Hydro partnered with The Community Against Preventable Injuries (preventable.ca), a not-for-profit organization dedicated to delivering a sustained social marketing campaign to reduce preventable injuries in B.C.

SAFETY

BC Hydro's school programs deliver electrical safety messages to elementary students and teachers. In fiscal 2010, we delivered resource materials for the Grade 2 'Energy Detectives' program to 350 teachers in 33 of 54 school districts, and 'Energy Connections' for Grade 6 students was delivered to 210 teachers in 27 school districts. To help ensure young trades workers work safely around electricity, BC Hydro collaborated with post-secondary trades schools to create the 'Electrical Safety for Trades Students' training program. To date, four workshops have been delivered to 120 trades students, and the program may reach up to 1,500 students.

A power line technician at work above False Creek in Vancouver.

Power line technicians Gerald Ellis (left) and Junior Phillips (right) at work in Fort St. John.

TECHNOLOGY

Robotic Pole Manipulator

Using technology to help us create a safer worker environment is a key focus at BC Hydro. Following recommendations arising from the investigation into live line work process automation conducted in 2008, a decision was made to proceed to further develop and design a Robotic Pole Manipulator (RPM). The RPM design work was completed December 2009 with a scale working prototype that demonstrates the potential for safety benefits through the application of this new technology.

Advanced Aerial Sensors

BC Hydro performed an investigation into the application of advanced aerial sensor systems to perform routine transmission and distribution right of way (ROW) maintenance inspections. This was to determine ways in which technology could be used to remove line workers from the hazards of performing low and slow helicopter-based inspection work. The work scope included land use management and dam safety functions performed in helicopters as well as the traditional ROW tasks like vegetation management. The study was completed at the end of fiscal 2010. Recommendations for fiscal 2011 included performing a series of test flights to prove superiority of data collection methods while ensuring safer helicopter flight operations.

PEOPLE

Olympic venue crew Don Luney and Zane Gauthier, power line technicians, work on site at Whistler Creekside.

GUIDING PRINCIPLE:
To be the top employer for generations and to use exceptional teamwork to guide all employees.

As we approached optimal staffing levels for our current workload in fiscal 2010, BC Hydro changed its recruitment focus. The total number of employees across the company was almost unchanged in fiscal 2010 when compared to fiscal 2009. However, retirement eligibility of our employees remains a moderate concern, with approximately 25 per cent of our current workforce eligible to retire within the next five years.

Diversity in the workplace is important to BC Hydro. Over the last five years, we have increased our representation of both women (by 20 per cent) and visible minorities (by 40 per cent) working at BC Hydro. The demographics of our workplace are changing and the average age of employees is getting younger—just over 40 per cent of our workforce is made up of employees born since 1964, but employees born since 1981 make up the fastest growing segment of our workforce.

STRATEGIES IN THE 2009/10–2011/12 SERVICE PLAN:

- focus our outreach activities to attract a more diverse pool of qualified applicants (this will include strengthening our partnerships with educational institutions, regulatory bodies and agencies that support under-represented groups);
- ensure our workforce has an appropriate complement of regular and temporary employees, while at the same time leveraging our contracted and outsourced service providers in the safest, most efficient and cost-effective manner;
- continue to provide an appropriate balance of competitive compensation, benefits and employee wellness programs to attract and retain our employees; and
- enhance our leadership, apprentice, trainee and staff development programs so that they foster an environment that reflects our values and encourages continuous learning and personal growth, and engage employees so that they are motivated to achieve great things on multiple levels, for themselves, for our company, for our province and future generations.

The following changes have been made to these strategies in this fiscal year:

- In order to use people-centric technologies to enhance human resources services and process, BC Hydro began the EMPower initiative in fiscal 2010. This initiative will upgrade or replace many of the current aging and obsolete Human Resources information systems used by BC Hydro. Key milestones included the formation of the core project team and the initial phases of project planning and preparation.

PEOPLE

KEY PROGRAMS

In October, Mediacorp awarded BC Hydro with the designation as being one of the Top 100 Employers in Canada and one of the Top 55 Employers in British Columbia. BC Hydro was recognized for many of its programs and offerings, including our work atmosphere, training and leadership programs for managers, trades and technical apprenticeships and new employees, and our health and family benefits packages. The company was also recognized for our support of local communities, promotion of work-life balance and the overall engagement level of our employees.

In fiscal 2010, we focused on a variety of programs and initiatives to source, develop and retain our workforce talent:

- changes to our benefits structure to allow for more flexibility and employee choice without impact to the total cost of the program;
- adding social media as recruitment and employee sourcing tools;
- facilitating employee participation in BC Hydro's community efforts to support the 2010 Winter Olympic and Paralympic Games;
- implementing an enterprise-wide training management application as part of a review of all training programs;
- further integration of our workforce planning systems and drafting workforce plans for each business group; and
- building the project team to redesign our Human Resources Information Systems (labour tracking and payroll) in fiscal 2011.

In fiscal 2010, BC Hydro conducted a smaller "pulse check" survey with employees, and will report on the results of the next company-wide Employee Engagement Survey in fiscal 2011. In fiscal 2009, the decision was made to conduct employee engagement surveys every two years.

VACANCY RATE

percentage – *lower is better*

	F2007	F2008	F2009	F2010
Target		10.2	9.9	8.0
Actual	9.0	8.7	6.9	5.5
Number of Employees	4,546	5,185	5,844	**5,842**

Vacancy Rate is a high level indicator of an organization's people management, which includes its reputation and competitiveness as an employer, level of employee engagement, staff turnover and the effectiveness of workforce planning and recruitment processes. The Vacancy Rate is subject to considerable variation based on factors such as organizational growth, internal personnel movement, employee demographics and external market conditions. As such, it must be interpreted within the context of the timeframe being measured. Vacancy Rate is calculated as a percentage of the number of vacancies in progress (replacement or additional positions actively being recruited internally and externally) to the sum of BC Hydro's headcount plus the number of vacancies in progress (less seasonal roles). The year-end result is calculated by averaging the month-end rates at the end of each quarter.

The fiscal 2010 Vacancy Rate is well within the fiscal 2010 planned target and the favourable results are attributed to the organization undertaking a controlled growth strategy in fiscal 2010 whereby vacant roles were prioritized and filled based on operational requirements.

BC Hydro has removed the Vacancy Rate performance measure. With BC Hydro now nearing its optimal staffing levels and currently experiencing a low rate of attrition, this metric is less meaningful at this time.

EMPLOYEE ENGAGEMENT

Mean Score out of five / percentage – *higher is better*

	F2006	F2007	F2008	F2009	**F2010**	F2011
Target	N/A	N/A	3.50	3.55	N/A	62%
Actual	3.32	N/A	3.28/51%	3.61/62%	N/A	

[1] As of fiscal 2009 the Employee Engagement Survey is performed every two years.

[2] Employee Engagement was formerly expressed as an overall mean on a five point scale on an Employee Engagement Survey from "strongly agree" to "strongly disagree". Effective F2009, Employee Engagement is expressed by overall "percent favourable" defined as the percentage of respondents who "strongly agree" or "agree" with survey statements.

[3] In fiscal 2006 and 2008 mean actuals were adjusted for comparative purposes.

PEOPLE

ORGANIZATION AND SKILL DEVELOPMENT

In fiscal 2010, nearly 400 employees participated in our award-winning leadership programs, bringing the total number of participants close to 2,400 employees since we introduced the first program in 2005.

In the continuous development of our future workforce in critical roles across the company, we maintained our successful trainee programs for Managers and Professionals in Development, Engineers in Training, Graduate Technologists in Training, Managers in Training, as well as our Student Co-op, Apprenticeship and Trades Trainee programs.

As part of the 2010 Vancouver Olympic and Paralympic Games, BC Hydro seconded 61 short-term and six long-term employees to the Vancouver Olympic Committee (VANOC) in roles such as energy managers. BC Hydro also had 112 employees work as volunteers for Vancouver 2010 Olympic and Paralympic Winter Games in a variety of roles, including site supervision and coordination, fleet and logistics functions.

FIRST NATIONS

BC Hydro continued to focus on building meaningful relationships with First Nations. Resolving a major grievance regarding the construction and operations of the Williston reservoir was an important milestone. Increasing awareness among First Nations communities of the opportunities available within BC Hydro that can support First Nations economic and employment goals was also a key priority; and we shared information with future aboriginal leaders with the aim of building on and strengthening our existing relationships. Other key projects included building understanding amongst our workforce about why First Nations relationship-building is important, and improving IT solutions to maintain comprehensive consultation records.

In February 2010, BC Hydro underlined its commitment to building sustainable relationships with First Nations by constructing two 16-foot tall Coast Salish Welcome Figures in our Vancouver office lobby. The Welcome Figures, which will remain in perpetuity, were designed and carved by George Hemeon, a BC Hydro senior Aboriginal procurement advisor and member of the Squamish Nation. Chief Ian Campbell of the Squamish Nation presided over a traditional Coast Salish unveiling ceremony for the figures.

The First Nations Welcome Figures unveiling ceremony in February 2010 in the downtown Vancouver office lobby of BC Hydro.

As a supporter of the Vancouver Olympic Committee's 2010 Indigenous Youth Gathering, BC Hydro played host to 320 Aboriginal youth from across Canada for a youth leadership forum. During the forum, the First Nations, Inuit and Metis youth, aged 19 to 29, provided us with exceptional insight into some of the energy and environmental issues facing Aboriginal Peoples in B.C. and all of Canada.

BC Hydro also intends to build upon its success after having earned a Silver award in the Canadian Council for Aboriginal Business' Progressive Aboriginal Relations program in fiscal 2009. BC Hydro has been developing an action plan to improve upon its aboriginal relationship building efforts. The plan includes: embedding Aboriginal relations components within social responsibility policy, considering Aboriginal issues in structured decision-making, increased education and training, greater Aboriginal representation among employees, and the pursuit of new Aboriginal business development opportunities, such as contracting and developing an Aboriginal procurement strategy.

PEOPLE

In June 2009, BC Hydro concluded an agreement with the Tsay Keh Dene First Nation, located at the northern tip of Williston Lake, to address the historic social, economic and environmental impacts that the construction and operation of our Peace region facilities had on their communities. BC Hydro had previously reached a similar agreement with the Kwadacha First Nation in 2008.

BC Hydro continued to work with Aboriginal communities, such as the Tsay Keh Dene and Kwadacha First Nations to facilitate Roots of Empathy program training, a tool dedicated to teaching emotional capacity and empathy in children. As well, we worked with the Minerva Foundation for B.C. Women to deliver training sessions, focused on sharing the history and culture of Aboriginal people. Through Impact Benefit Agreement funding, BC Hydro is assisting the Chehalis Indian Band in delivering education and training programs to build the capacity of Band members and skill sets required for employment opportunities. This year, BC Hydro contributed funds for Chehalis to run an Aboriginal Environmental Technician Certificate program in the community. Eight Chehalis members graduated from the program in 2009.

COMMUNITY RELATIONS

Building and maintaining strong relationships with community leaders is at the heart of BC Hydro's mandate. In fiscal 2010, BC Hydro managed or was involved in local issues across the province—dealing with power outages, vegetation management, water use plans and other customer relations concerns—in addition to providing consultation support to more than 60 capital projects to improve our generation and distribution systems.

In 2009, British Columbia experienced one of its worst fire seasons, which threatened communities and our electrical infrastructure. Working with local and provincial emergency providers, we ensured reliable and ongoing communications support just as we do in times of severe winter weather and flooding.

STAKEHOLDERS

BC Hydro continued to engage with a variety of stakeholders in fiscal 2010. Now in its fourth year of operation, the Electricity Conservation and Efficiency Advisory Committee (ECE) was established to provide input and advice on BC Hydro's conservation and efficiency initiatives. In 2009, the committee made four formal recommendations that have been adopted by BC Hydro. These relate to changing market parameters to increase energy efficiency, improving demand-side management planning and encouraging change at the societal level.

BC Hydro continued to engage British Columbians on BC Hydro's capital projects and on several key initiatives such as the Large General Service Rate and the Distributed Generation strategy. In developing the Distributed Generation Strategy, BC Hydro recognized the need to work closely with existing industrial and commercial customers, local governments and other key groups to better understand the opportunities and potential challenges of establishing distributed generation across the province. The feedback and advice from more than 50 customer interviews and a focus group were incorporated into the strategy that was approved by BC Hydro's board in June 2009.

CORPORATE/REGIONAL DONATIONS

	F2006	F2007	F2008	F2009	**F2010**
Amount Allocated *Dollars, in thousands*	1,005	1,225	1,185	1,185	**1,197**
Percentage Allocation					
Arts and Culture	3	0*	0*	0*	**0***
Education	10	17	15	11	**13**
Environment	5	6	9	9	**10**
United Way	14	6	6	1	**1**
Aboriginal	13	0*	0*	0*	**0***
Regional	26	39	42	42	**42**
Scholarships	15	10	7	8	**12**
Employees' Community Services Fund	10	10	8	9	**9**
Community Investment, People and Leadership	5	11	13**	20	**13**

Corporate and Regional Donations are monetary grants, sponsorships or in-kind contributions provided by BC Hydro to registered charities or not-for-profit organizations to support cultural, social and economic well-being in communities around the province of British Columbia.

*Arts and Culture and Aboriginal were considered a separate category in the past, but in fiscal 2007 these allocations were integrated into the main funding areas.

**For fiscal 2008 and 2009, the People and Leadership funding and Community Investment funding areas are reported together.

The drop in Education funding between fiscal 2008 and fiscal 2009 is due to moving one donation from Education to People and Leadership.

For fiscal 2009 donation initiatives were planned to have a stronger customer focus that included marketing and leveraging opportunities similar to sponsorships.

For fiscal 2010 donation initiatives were planned to have a stronger alignment for energy conservation action in B.C.

PEOPLE

COMMUNITY INVESTMENT

In fiscal 2010, BC Hydro supported community-based organizations and registered charities with $1.2 million in donations and $1.6 million in sponsorships including $150,000 awarded through scholarships and endowments to B.C. students. To qualify for funding, organizations must support BC Hydro's long-term energy conservation goals and align to one or more of the three funding areas: environmental sustainability, community leadership and/or youth and education.

BC Hydro also supports the BC Hydro Employees Community Services (HYDRECS) Fund, an employee- and retiree-managed fund that supports Canadian charities in the health and social services sector, and the BC Hydro Power Pioneers Association, a group of nearly 5,000 BC Hydro retirees who donate their time to local and provincial charities and service clubs, including the Miracle Million Campaign to raise $1 million for the BC Children's Hospital.

The Power Pioneers, BC Hydro's retiree association, visiting Olympic venues in Whistler, B.C.

COMMUNITY OUTREACH

In fiscal 2010, Community Outreach successfully executed an extensive conservation campaign: The Power the Games Tour. The tour concluded at the Power Smart Village celebration site in downtown Vancouver during the Vancouver 2010 Olympic and Paralympic Games.

The Community Outreach team attended 2,236 traditional community events and expanded the support of Power Smart programs by delivering an additional 1,636 activations specifically dedicated to enhancing awareness and adoption of our conservation initiatives. These additional events included workplace conservation presentations, retail store conservation training and industrial events promoting both conservation and safety. In total, the team engaged 561,226 British Columbians and delivered 600,977 educations building and reinforcing conservation attitudes and behaviour. In addition 21,037 households joined Team Power Smart through engagement with the team adding approximately 65,000 members.

This campaign marks a new best practice for utility community engagement related to conservation within Canada as no other has been executed to this scope. By directly interacting with almost one in every 10 people in the province, the Power the Games Tour and Power Smart Village have contributed significantly to the goal of energy self sufficiency for the province by 2016.

RELIABILITY (CUSTOMER)

GUIDING PRINCIPLE:
To provide the best in class reliability by customer segment.

(Left to right) Jake Almendovar, Jason Lombardo, Doug Swoboda, Josh Wahl, Deepak Ratnam. The crew responsible for venue overlay construction at Whistler Sliding Centre prior to the Games.

Customer reliability means the delivery of an uninterrupted supply of electricity to BC Hydro customers. With programs in place like BC Hydro's System Resiliency Program, the Customer-Based Reliability initiatives and other outage communication initiatives, we are able to provide our customers with timely, accurate information and reduce restoration times, while improving overall reliability.

BC Hydro uses two industry-standard measures—CAIDI (Customer Average Interruption Duration Index) and SAIFI (System Average Interruption Frequency Index) to monitor the overall performance of the system. BC Hydro also uses the customer-focused CEMI (Customers Experiencing four or more interruptions) to measure actual interruptions as experienced by customers, in order to focus efforts on customers experiencing lower levels of reliability.

STRATEGIES IN THE 2009/10–2011/12 SERVICE PLAN:

- continue to develop the System Resiliency program (initiated in fiscal 2007) to strengthen circuits that are most susceptible to storms, including those that have had outages lasting 12 or more hours each for the last three to five consecutive years—through such measures as stronger cables, circuit upgrades, vegetation cleaning, relocating circuits/poles and undergrounding;
- use life-cycle analysis to assess the condition and capability of assets (such as wires, poles and cables) and identify opportunities to deliver more reliable service; and
- through our Remote Community Electrification program, provide appropriate electric service on an equitable basis to all remote communities within the province that are not currently served by BC Hydro.

RELIABILITY AND STORMS

Wind and snowstorms happen frequently during the fall and winter months in B.C. They present significant operating challenges and can hamper our ability to deliver electricity for our customers. To deal with the impact of such events, we have developed a safe, reliable and timely approach to power restoration to our customers and ensure that customers are informed with clear, updated information. Fiscal 2010 was a milder-than-expected weather year, with four windstorms (three in November and one in January) causing substantial power interruptions to customers in the Lower Mainland, Vancouver Island and South Interior areas. These windstorms accounted for 330,000 customer interruptions and 1.4 million lost customer hours. The most severe windstorm occurred from November 16 to 19, interrupting power supply to customers in the Lower Mainland and Vancouver Island, resulting in 230,000 customer interruptions and more than 800,000 lost customer hours.

RELIABILITY (CUSTOMER)

SYSTEM RELIABILITY IMPROVEMENTS

BC Hydro successfully planned and delivered reliable power to the 2010 Olympic and Paralympic Games in Vancouver, Whistler and Richmond, due to improved infrastructure planning and development in support of Vancouver 2010 Olympic and Paralympic Winter Games. In fiscal 2010, BC Hydro enhanced its reliability strategy by investing in 85 reliability capital projects with an increased effort on improving circuits where performance was below customer reliability expectations. To mitigate the impact of trees on reliability, the Distribution Vegetation Program addresses approximately 13,000 kilometres of distribution line on an annual basis. Through the Hazard Tree program, public and worker safety issues are addressed, as well as contributing to improved system reliability.

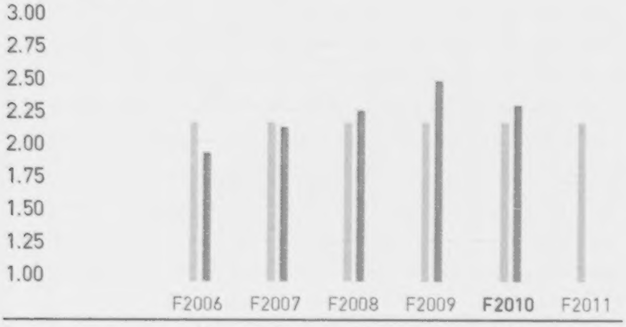
SYSTEM RESILIENCY IMPROVEMENTS

System resiliency is a five-year capital investment program targeted to increase the ability of the distribution system to withstand or avoid outages during storm events. This program will also mitigate the impact of power interruptions by building flexibility into the system to re-route power and reduce outage restoration times. Currently in its third year of implementation, planned improvements were made to 61 distribution circuits as part of the program this year in storm vulnerable areas. The overall design and construction work on capital projects in fiscal 2010 has been 75 per cent completed, with 61 projects in-service and 25 in construction. The capital expenditures for the program total $33.1 million. Planning is also underway for additional capital projects that are scheduled for construction in fiscal 2011. Vegetation management work was blended with the Hazard Tree program for fiscal 2010, and 100 per cent of the work plan was completed on 80 circuits, with expenditures totalling $1.1 million.

RELIABILITY PERFORMANCE

CAIDI (hours)

lower is better

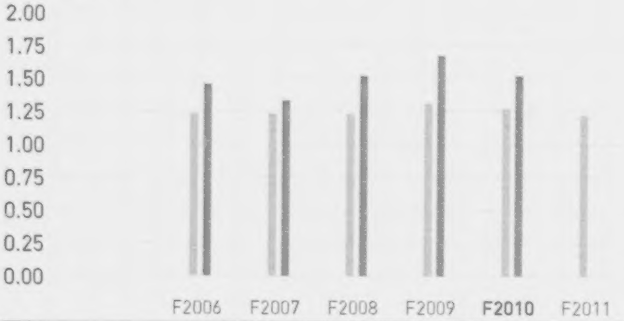


	F2006	F2007	F2008	F2009	**F2010**	F2011
Target	2.15	2.15	2.15	2.15	2.15	2.15
Normalized, excluding major events	1.92	2.16	2.24	2.47	2.28	

CAIDI is the average interruption in hours per interrupted customer. BC Hydro's targets are set against normalized results which exclude major uncontrollable events as noted below. Normalized CAIDI is worse than Plan due to longer than planned outage restoration times. Transmission and substation outages, trees and tree branches falling on power lines, equipment failure and adverse weather are the major contributing factors for the unfavourable performance. Major uncontrollable events (i.e. windstorms, earthquakes, forest fires) are not included if they cause an outage that results in more than 70,000 lost customer hours or more than one per cent of annual lost customer hours in the distribution system. While major uncontrollable events are not included in the numbers above, controllable causes are included. These include equipment failure or human error at the distribution, substation or transmission level, even if the resulting lost hours are in excess of one per cent of the annual customer hours.

SAIFI (frequency)

lower is better

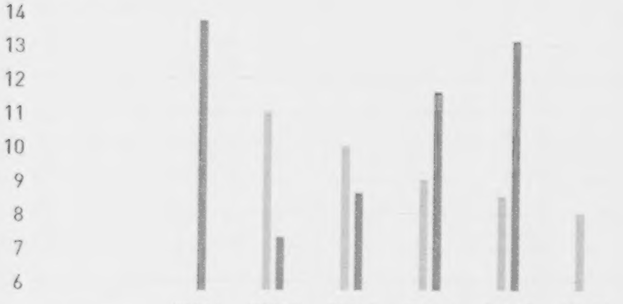


	F2006	F2007	F2008	F2009	**F2010**	F2011
Target	1.23	1.23	1.23	1.31	1.27	1.22
Normalized, excluding major events	1.45	1.33	1.52	1.67	1.52	

SAIFI is a measure of how many sustained interruptions an average customer will experience over the course of a year. Normalized SAIFI is worse than Plan as normalized customer interruptions are more than 19 per cent higher than Plan. Higher than expected outage frequency due to transmission and substation outages, trees and tree branches falling on power lines, equipment failure and planned outages for de-energized safe maintenance work on the distribution system are the leading causes of the unfavourable SAIFI performance.

RELIABILITY (CUSTOMER)

CEMI-4 (percentage)
lower is better



	F2006	F2007	F2008	F2009	**F2010**	F2011
Target	N/A	11.0	10.0	9.0	8.5	8.0
Normalized, excluding major events	13.7	7.3	8.6	11.6	13.1	

CEMI-4 is the percentage of customers experiencing four or more outages during a given time period. CEMI-4 is a customer-focused reliability measure implemented in fiscal 2007 to provide customers with an intuitive understanding of BC Hydro's reliability performance. Fiscal 2010 year-end normalized CEMI-4 is worse than Plan due to increased outage frequency primarily caused by transmission and substation outages, planned outages and trees. At year-end CEMI-4 was 13.09 per cent, meaning that 240,000 customers have had four or more outages in a year.

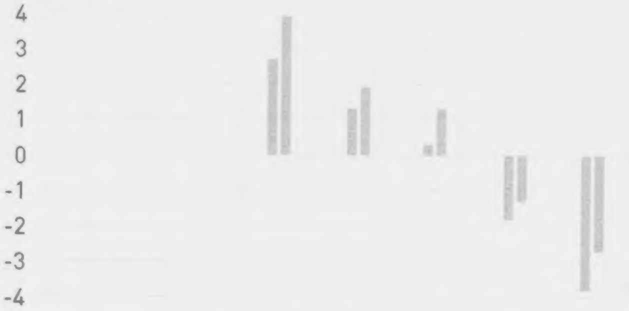
BENCHMARKING AND CUSTOMER RELIABILITY

BC Hydro participates in a number of annual benchmarking studies to gauge our performance against leading Canadian and U.S. utilities. These studies, including First Quartile Consulting's Transmission and Distribution Benchmarking Study, the Electric Utility Costing Group (EUCG) Transmission and Distribution Performance Committee and the Canadian Electricity Association's Service Continuity Committee, have shown that BC Hydro is a low-cost, customer-focused service provider with many of the industry's best practices in place. Specifically, our distribution wires business is among the lowest cost service providers as measured by cost per customer.

In fiscal 2010, BC Hydro's reliability performance was ranked in the second quartile for CAIDI and third quartile for SAIFI. Although our reliability performance compares less favourably with other utilities on account of our vast, largely rural service territory with long distribution lines, abundance of trees along the wires corridors and pre-dominantly overhead system that is susceptible to interference, our customers have continued to be highly satisfied with our reliability.

Hin-Cheung Luk, Engineering team lead, working with BC Hydro engineer and Paralympian gold medallist Lauren Woolstencroft. In addition to winning five gold medals in alpine skiing events at the 2010 Vancouver Winter Paralympics, Lauren also helped in the design and preparation of BC Hydro infrastructure for Olympic and Paralympic venues.

DEMAND GROWTH (With and Without Demand-Side Management)
percentage



	F2006	F2007	F2008	F2009	**F2010**
Growth Rate with DSM	2.7	1.3	0.3	−1.8	−3.8
Growth Rate without DSM	3.9	1.9	1.3	−1.3	−2.7

Note: Results for Demand Growth without DSM, published in prior year reports, may differ due to changes in BC Hydro's historical annual acquired energy savings.

The growth rate is calculated as the year-over-year change in domestic load. However, despite higher customer numbers, overall load decreased due to the economic impact on BC Hydro's industrial customers. Slower growth in the residential and commercial sectors, and the negative growth rate in the industrial sector, added up to a decline in total BC Hydro firm sales in fiscal 2010 relative to fiscal 2009.

RELIABILITY (CUSTOMER)

CUSTOMER GROWTH

BC Hydro experienced average customer growth this year. Approximately 29,700 net new accounts were added in fiscal 2010, compared to the strong growth of approximately 34,000 a year earlier. The Northern Interior also saw continued reduced activity in fiscal 2010. The South Interior once again saw a modest level of growth for fiscal 2010 after an early surge, due to developers deferring or cautiously phasing in developments in the second or third quarters. Growth on Vancouver Island was primarily residential construction including multi-family development.

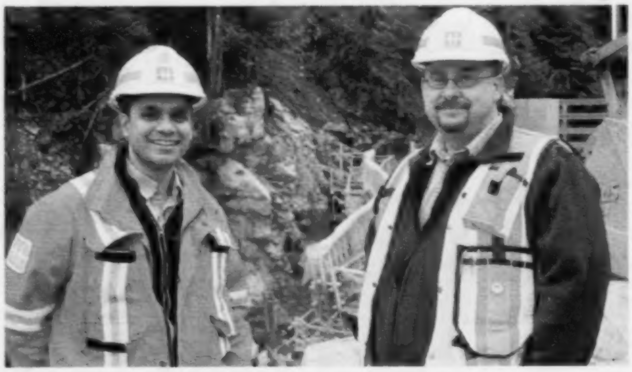
In spite of reduced housing starts, there was still significant growth in the Lower Mainland. However, developers and investors did place a number of construction projects on hold that are now being phased in. Major infrastructure projects such as the 2010 Olympic and Paralympic Games, Canada Line and major highway improvements also contributed to overall growth within the Lower Mainland. There was also an increase in construction activity in anticipation of the proposed HST implementation and some lifting of the credit freeze.

REMOTE COMMUNITY ELECTRIFICATION

In fiscal 2010, BC Hydro electrified Toad River, the first community to go through the Remote Community Electrification (RCE) program in its entirety. BC Hydro also prepared and submitted an application to the BCUC for approval to connect four Southern St'at'imc communities (Douglas, Tipella, Baptiste-Smith and Skookumchuck) to the grid, which was subsequently approved in April 2010.

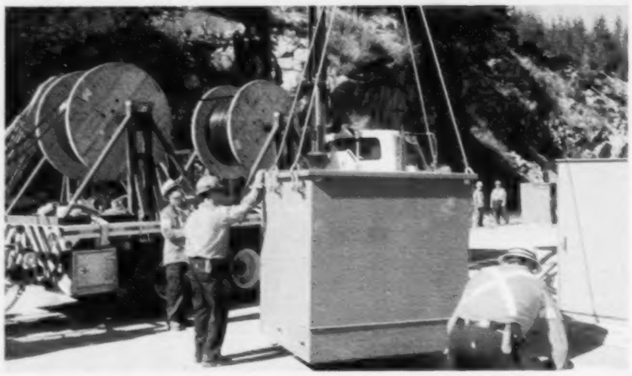
BC Hydro submitted the RCE program 20-Year Plan to BCUC as part of the Toad River CPCN application and negotiated a funding memorandum of understanding (MOU) with Indian and Northern Affairs Canada (INAC) that commits federal funding for the electrification of First Nation communities.

BC Hydro is currently working with 11 First Nations to develop and implement Community Electricity Plans. BC Hydro plans to electrify the Southern St'at'imc communities by December 2010 and another four communities by the end of fiscal 2011.



George Aung Thin, capital engineer, (left) and Dave Lingenfelter, construction officer, (right) overseeing the successful construction of the Lower Spillway Upgrade at Lake Buntzen 1 generating station.

Roger Lamothe, trades trainee, (left) and Goan Yim, power line technician, (right) working on the electrical terminations to energize a padmount transformer servicing the broadcast tent at the Vancouver Olympic Centre Hillcrest curling rink.



The Victoria/Nanaimo cable pulling crew constructing the Cypress Mountain overlay.

RELIABILITY (CUSTOMER)

BC HYDRO'S INVOLVEMENT IN THE 2010 VANCOUVER OLYMPIC AND PARALYMPIC GAMES

BC Hydro successfully planned and delivered reliable power to the 2010 Olympic and Paralympic Games in Vancouver, Whistler and Richmond, with much of the infrastructure remaining in place for improved reliability for BC Hydro customers. The success was a result of the expertise of the BC Hydro employees involved in designing, building and operating the infrastructure including temporary supply of more than 100 transformers, 22 kilometres of cabling and two generating stations. One of BC Hydro's engineering employees, Lauren Woolstencroft, was also a five-time Canadian gold medal paralympian.

BC Hydro was given two sustainability awards for their innovative approach which sets a new standard for future Olympic Games. Their solution was instrumental in reducing the number of diesel generators used in previous Games by more than 500 with a reduction in greenhouse gas emissions of over 90 per cent.

Energy managers, Cindy Muller (left) and Nina Selak (right) worked on site directly with VANOC leading up to and during the Games.

The Olympics enabled BC Hydro to leverage their Power Smart brand and improve the conservation culture in B.C. through media, contests and their Power Smart Village. We surpassed our target of registering 210,000 members to Team Power Smart who have made the commitment to reduce their annual electricity consumption by 10 per cent.

GRID MODERNIZATION

Smart Metering Program and Smart Grid Program

Smart metering and smart grid developments are moving forward around the world. Like other utilities across the globe, BC Hydro is taking action and preparing to automate the electrical grid and metering systems. These steps will enable customers to actively manage their energy choices, adopt new energy conservation solutions and benefit from an electric grid that is modern, reliable, safe and cost effective.

In the coming years, BC Hydro will be installing new digital meters that support two-way communication capability to approximately 1.8 million customers throughout the province, providing them with more information about their consumption than ever before. In-home displays and feedback tools, along with conservation-based rates, will allow customers to save energy and money. Implementation is targeted to be completed by the end of 2012. Upgrades to the telecommunications and information systems will provide more service options to customers, enhance reliability and help enable the integration of new technologies and clean sources of electricity.

During fiscal 2010, the Smart Metering Program and Smart Grid Program—collectively referred to as the Smart Metering and Infrastructure Program (SMI)—continued with planning to modernize the grid. Activities included: exploring technologies and suppliers, engaging in industry standards development for interoperability and security, collaborating with peer utilities, and gathering lessons learned from smart metering and smart grid projects in North America and Europe. This work has helped to inform the establishment of a grid modernization vision, confirm the project scope, and develop procurement and execution strategies for the Smart Metering Program and Smart Grid Program.

CUSTOMER SATISFACTION

POWER
THE GAMES

GUIDING PRINCIPLE:
To lead by offering extraordinary value and service.

A future customer gives Community Outreach representative, Cailey Borland, a high five at a local Power the Games provincial tour.

BC Hydro is committed to offering extraordinary value and service. The way that we interact with our customers is changing, as is the surrounding business environment with the arrival of new technologies. Continuing to communicate through a variety of channels and provide a valued service in the public's interest are key ways that we are maintaining strong customer satisfaction.

Customer Satisfaction is a key indicator of how well our customers feel we are performing. As customer needs and expectations change over time, the focus is on improvements that are cost-efficient, and contribute to the overall quality of the BC Hydro customer experience and maintain core service levels.

STRATEGIES IN THE 2009/10-2011/12 SERVICE PLAN:

- continue to increase consistency and quality of BC Hydro's customer experience in high customer contact areas by improving outage communications, contact centre interactions, BC Hydro website content and functionality and bill design;
- strengthen our understanding of customers' needs and expectation through research, targeted segmentation, analysis of feedback through all customer touch points, best practice reviews and benchmarking; and
- ensure employees understand customers' experience with BC Hydro, what customers' needs and expectations are and how each employee contributes to delivering a positive customer experience.

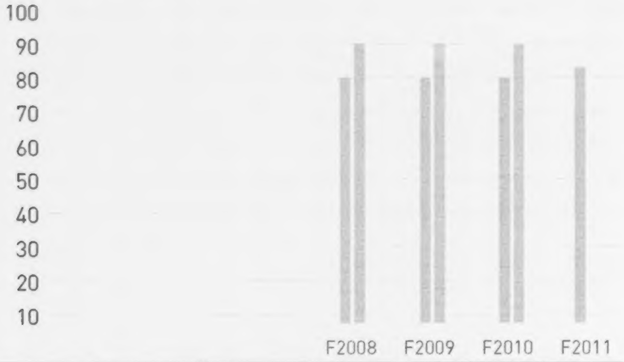
CUSTOMER SATISFACTION

CUSTOMER SATISFACTION

BC Hydro achieved a 90 per cent overall customer satisfaction rating in fiscal 2010, exceeding our target of 80 per cent. Satisfaction was highest among key accounts at 92 per cent, followed by small/medium business at 90 per cent and residential at 89 per cent. Our ability to provide reliable power and our commitment to customer service remain our key strengths, and are the highest rated drivers across all customer segments. Sustained, strong customer satisfaction results throughout fiscal 2010 are attributable to a number of factors, including a continued focus on communication and customer engagement as well as continued excellence in our customer service operations.

CUSTOMER SATISFACTION

percentage – *higher is better*



	F2008	F2009	F2010	F2011
CSAT Target	80	80	80	83
CSAT Actual	90	90	90	

BC Hydro maintains a minimum threshold target of 80 per cent for CSAT to ensure we have strong customer support. BC Hydro achieved a 90 per cent overall customer satisfaction rating for fiscal 2010.

Benchmarking enables BC Hydro to understand our performance relative to customer perceptions, leverage best-in-class practices, and understand what is needed to be a leader in the industry and the province. Benchmarking results to date demonstrate BC Hydro compares well against both non-electric utility service providers and other electric utilities. Most recently, in May 2009, BC Hydro ranked 14 out of 25 service providers in British Columbia, based on an overall satisfaction with service result of 87 per cent. BC Hydro showed strong performance against other public sector companies; however, weaker performance was observed against retail companies and financial institutions. BC Hydro must continue to deliver the right mix of service and communications to maintain strong customer satisfaction.

BILLING ACCURACY

percentage – *higher is better*

	F2008	**F2009**	F2010	F2011
Target	98.2	98.2	98.2	98.2
Actual	98.5	98.5	98.5	

Billing accuracy is a core expectation of customers. We have therefore set our targets to deliver consistently high performance. For fiscal 2010, the Billing Accuracy target has continued to meet or surpass Service Level Agreement levels.

FIRST CALL RESOLUTION

percentage – *higher is better*

	F2008	F2009	**F2010**	F2011
Target	N/A	66	71	71
Actual	71	75	74	

This measure assesses customer service operations as a whole in terms of accurate and timely information flow, agent capability and quality, and a satisfying customer experience at a transaction level. As a result of a metric review led by BC Hydro with Accenture Business Services of British Columbia (ABSBC), the First Call Resolution (FCR) target was raised from 66 per cent to 71 per cent to continue to promote a target that drives ABSBC to continuous improvement. For fiscal 2010, FCR has continued to remain stable and above target.

CUSTOMER SATISFACTION

CUSTOMER SATISFACTION RESULTS

Customer satisfaction ratings are based on a percentage of customers who indicate they are "very satisfied" or "satisfied" with BC Hydro on a four-point scale across an equally weighted index of five key drivers:

- providing reliable electricity;
- providing value for money;
- demonstrating a commitment to customer service;
- acting in the best interest of British Columbians; and
- demonstrating efforts to communicate with customers and communities.

Customers are divided into three segments: residential, small/medium business and key accounts. All three segments are equally weighted and results reported as a four-quarter rolling average using a continuous surveying methodology.

Throughout fiscal 2010, there was a focus on increasing the efficiency, consistency and quality of BC Hydro's customer experience across customer channels including enhanced communications via the website, contact centre, and self-service options. For example, BC Hydro customers can now sign up to receive their bills electronically through epost™, Canada Post's free electronic bill presentment service. This offering is a key enabler in supporting our paperless bill adoption strategy.

Community Outreach representative, Emily Gibson, interacts with the public in BC Hydro's energy efficient Home of the Future, located in Vancouver during the 2010 Games.

As part of BC Hydro's recognition that traditional customer communication channels are evolving, BC Hydro entered into the social media space. The BC Hydro Facebook page connects customers to content about energy saving tips, contests and updates about our conservation work. There was also a focus to support stakeholder engagement activities targeting Key Account customers including participation in both general and industry specific events. BC Hydro continued to increase its level of participation with industry associations including the Joint Industry Electric Steering Committee, Retail BC, Building Owners and Managers Association of B.C. and others to support improved communication on a variety of initiatives (conservation, rates, system reliability) in support of our customers. Workshops and training sessions were also delivered on conservation, rates, bill management and outage processes to a variety of customer groups and community stakeholders including the low income segment and small/medium business groups.

ELECTRICITY SECURITY (SUPPLY)

GUIDING PRINCIPLE:

To meet all domestic needs.

One of BC Hydro's Olympic city venue crews (left to right): Chris Soles, Nick Vipond and Tam Lam.

Achieving Electricity Security (Supply) means ensuring that all the infrastructure components are available and ready to generate and deliver electricity for our customers. Generating facilities include BC Hydro's Heritage Assets, IPPs and other contracted generators.

Securing adequate capacity is further accomplished by encouraging increased conservation by all customers, load curtailment contracts with large customers and, until BC Hydro achieves self-sufficiency, market electricity purchases. With the completion of Revelstoke 5 expected in October 2010, BC Hydro will have additional capacity to meet increased load during the winter peak period. In fiscal 2010, BC Hydro's net consolidated electricity purchases for domestic use were 3404 GWh. Through the year, the reliability of generation also impacts the costs of energy to meet domestic load as well as the income that can be earned from trade.

STRATEGIES IN THE 2009/10–2011/12 SERVICE PLAN:

- manage our peak load supply reliability by minimizing the amount of unit outages during the winter peak period;
- implement capital projects to refurbish, replace and upgrade our Heritage Assets (e.g. commissioning the fifth unit at the Revelstoke generating station);
- increase maintenance and capital investments to enhance the reliability of Burrard Thermal at least through fiscal 2019*;
- secure firm market energy (electricity and natural gas) for domestic peak periods;
- continue our load curtailment programs with customers as contingencies for winter capacity supply;
- advance various power acquisition processes for future incremental supply; and
- meet customer load and reliability requirements in the short term through a combination of Heritage and IPP generation, electricity market purchases, customer load curtailment contracts and imports backed by the Canadian entitlement.

*Since the 2009/2010–2011/12 Service Plan was released, the government has provided further direction to BC Hydro to maintain Burrard Thermal for use only as a source of capacity and short-term energy.

ELECTRICITY SECURITY (SUPPLY)

SYSTEM OPERATIONS

BC Hydro is committed to maintaining a secure supply of electricity and delivering it safely to our customers. To achieve this, BC Hydro closely monitors factors such as weather and snowpack forecast, reservoir levels, customer loads, market conditions and the availability of Heritage and Independent Power Producers (IPPs) generating units to supply power. Energy and capacity studies based on these factors help to form decisions to prioritize operation of specific generating plants, identify necessary contingency resources and set threshold prices for the purchase or sale of energy.

Water Supply and Reservoir Storage

Generation from BC Hydro's predominantly hydroelectric system is dependent upon precipitation and reservoir storage operations. During fiscal 2010, water inflow into BC Hydro reservoirs was only 87 per cent of average, the lowest recorded in 15 years. In response to the forecast inflow and market conditions, BC Hydro positioned its total reservoir storage at 1,900 GWh above average by the start of fiscal 2010. To mitigate the impact of the unusually low inflow during fiscal 2010, total reservoir storage was subsequently drafted by 2,600 GWh on a year-over-year basis.

Forecast Supply-Demand Balance for Peak Load

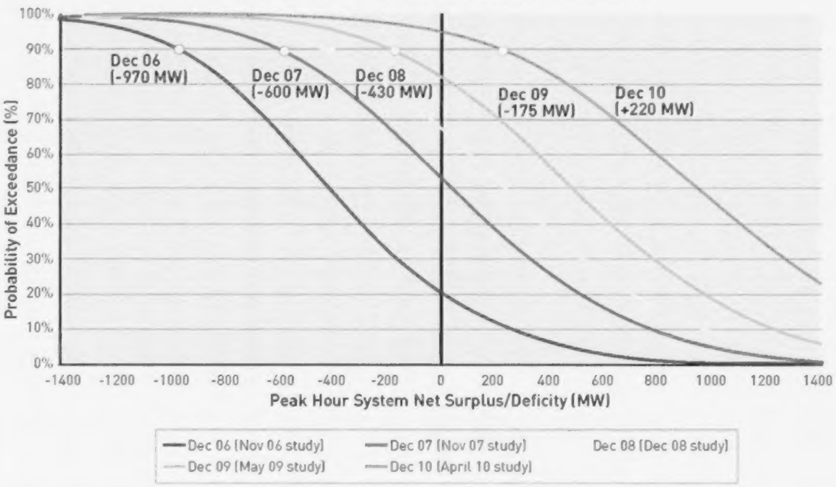
BC Hydro plans to have enough firm resources to meet the peak load nine years out of 10. In other years we would rely on non-firm sources to meet capacity constraints.

Over the past four years, BC Hydro had progressively reduced its electricity supply risk during the peak demand winter period. While peak loads can occur anytime between about November 15 and February 15, they most frequently occur during the month of December. Forecasts of December capacity deficit at the required 90th percentile confidence level have decreased for each successive year, from a forecast deficit of almost 1,000 MW in 2006 to a deficit of 175 MW in 2009. As a result, our planning reliance on contingency resources, such as market purchases (firmed with Canadian Entitlement) and customer load curtailment contracts, have been reduced. For December 2010, BC Hydro expects to have sufficient firm resources to meet the 90th percentile confidence objective without any planned reliance on contingency resources. This reduction in capacity supply risk can be attributed to factors such as additional IPP generation, capacity upgrades at GM Shrum generating station and anticipated completion of the fifth generating unit at Revelstoke generating station.

Customer Load Curtailment Program

To acquire additional short-term capacity, and provide more options and operating flexibility for meeting customer peak loads, BC Hydro introduced a Customer Load Curtailment Program in 2007. Fiscal 2010 marked the third year of an expanded Load Curtailment Program with our large customers. BC Hydro successfully conducted a load curtailment event on December 7, 2009 during a period of abnormally cold temperatures and consequent high customer demand. Five customers curtailed about 225 megawatts for four hours during the evening peak load period.

PROBABILITY OF EXCEEDANCE: SYSTEM SURPLUS FOR WINTER PEAK LOAD
(FORECASTS FOR WINTERS 2006/07 TO 2010/11)



ELECTRICITY SECURITY (SUPPLY)

GENERATION AVAILABILITY AND RELIABILITY

In addition to the amount of water in our reservoirs, the availability and reliability of our generating facilities contributes to our ability to meet customer demand. Availability reflects the percentage of time a generating unit is in commercial service and available to produce energy. Unit reliability refers to the frequency that generating equipment encounters unplanned outages.

Winter Generation Availability

The Winter Generation Availability Factor (WGAF) tracks generation availability in the period of November 15 to February 15, when customer demand is most likely to reach its annual peak. Approximately 50 per cent of the total winter unit unavailability hours recorded in fiscal 2010 was due to a capital upgrade unit outage extension at GM Shrum generating station.

Generation Reliability

Seven key hydroelectric facilities account for approximately 80 per cent of BC Hydro's generation capacity and BC Hydro measures performance at these key facilities through the number of forced outages experienced by each generating unit. In fiscal 2010, key facilities experienced 1.8 outages per generating unit, a slight improvement compared to the 1.9 outages per generating unit reported for the prior year. More importantly, no major units experienced a forced outage during the critical winter period of fiscal 2010.

British Columbia hosted the 2010 Vancouver Winter Olympics and Paralympic Games in February and March. Due to its planning and maintenance activities in advance of the Games, BC Hydro did not experience any major generation outage throughout this period.

Matthew Betts, power electrical equipment technologist and Debie Ocampo, engineer in training, commissioning one of the Cypress Mountain diesel generation station transformers that was on standby as emergency back up power during the Games.

WINTER GENERATION AVAILABILITY

percentage – *higher is better*

	F2006	F2007	F2008	F2009	**F2010**	F2011
Target	N/A	95.75	96.20	96.20	96.30	96.40
Actual	96.77	96.26	94.98	96.40	97.60	

The Winter Generation Availability Factor (WGAF) is a percentage of Heritage Asset units in the system greater than 20 MW and available to generate electricity (total hours available for service/total hours) during the critical peak-load period of November 15 to February 15. BC Hydro focuses on WGAF to manage the availability of generation during the critical winter period when customer loads are most likely to reach their annual peaks, and all BC Hydro generating units will remain in-service barring a forced outage or urgent maintenance.

The WGAF was 97.6 per cent, exceeding the 96.3 per cent Service Plan target. This factor is higher than Plan due to no major forced outages during the critical winter period. A number of generating stations, including Revelstoke, Bridge River and Peace Canyon, achieved 100 per cent availability and contributed to the overall results exceeding the target.

BC Hydro also reviews its generation performance against available industry benchmarks such as annual system availability and the frequency of unexpected outages. While these measures provide a means of comparison against other utilities, they do not provide the best measure of reliability performance. For example, annual system availability varies significantly due to outages for planned maintenance and capital upgrades; however, such outages are scheduled so that BC Hydro's ability to generate sufficient electricity to meet customer demand is not adversely affected.

ELECTRICITY SECURITY (SUPPLY)

CAPITAL INVESTMENTS IN GENERATING ASSETS

Resource Smart and Growth Projects

The Resource Smart Program provides additional electricity to the BC Hydro system by upgrading, with generally low or no incremental environmental impact, existing generating facilities. Since its inception in the late 1980s, this program has added almost 1,300 GWh of annual production, enough to power 130,000 homes.

During fiscal 2010, BC Hydro placed into service the redeveloped Aberfeldie Generating Station, a new three unit, 24-megawatt generating station replacing the old single unit, five-megawatt plant constructed in 1922. The first energy flowed from the new generating station in December 2008 and the final two units were placed in service in May 2009. Other Resource Smart projects underway include the upgrade to the Revelstoke Generating Station, where the fifth generating unit will yield 500 MW of additional generating capacity and approximately 130 GWh of annual electricity production. We are also looking to meet growing customer demand in the Fort Nelson area and assessing the opportunities for the installation of fifth and sixth generating units at our Mica Generating Station, identified in the *Clean Energy Act* as being one of the strategic provincial projects. In addition, BC Hydro is considering the redevelopment of our John Hart and Ruskin facilities and upgrading the Cheakamus generators.

BC Hydro also placed into service new, more efficient transformers at the GM Shrum and Clowhom Generating Stations which provide, in aggregate, an additional 6.2 GWh of energy per year.

Site C Clean Energy Project

In April 2010, the provincial government announced that the Site C Clean Energy Project (Site C) will move forward to the regulatory review stage, which will include an independent environmental assessment.

Site C will be a third dam and hydroelectric generating station on the Peace River in northeast B.C. It will provide approximately 900 megawatts of capacity and produce about 4,600 gigawatt hours of electricity each year. This is enough electricity to power approximately 410,000 homes per year.

The decision to advance Site C to the next stage of planning and development is based on the project's benefits to British Columbians.

- Site C will be a source of clean and renewable electricity for more than 100 years;
- Site C will produce among the lowest greenhouse gas emissions per gigawatt hour, when compared with other forms of electricity generation;
- as the third project on one river system, Site C will generate 30 per cent of the electricity produced at the W.A.C. Bennett Dam with only five per cent of the reservoir area;
- Site C will contribute to the local and provincial economy by creating an estimated 7,650 direct construction jobs through the construction period, and up to 35,000 direct and indirect jobs through all stages of the project; and
- as a source of firm energy, Site C will facilitate the development of clean energy projects by providing additional capacity to back up intermittent resources, such as wind, run-of-river hydro and solar.

Construction of Site C will be subject to environmental certification and required regulatory approvals, and ensuring that the Crown's constitutional duties to First Nations are met.

The regulatory review is expected to take about two years, and it is anticipated that Site C will be available for domestic electricity need by 2020.

ELECTRICITY SECURITY (SUPPLY)

POWER ACQUISITIONS

INDEPENDENT POWER PRODUCERS

BC Hydro's long-term strategy includes buying energy to meet B.C.'s domestic needs. This electricity procurement plays a critical role in reaching the BC Energy Plan's objective of achieving electricity self sufficiency by 2016, as well as meeting the Government's policy actions for maintaining competitive rates, continuing to generate clean or renewable electricity and supporting a vibrant and competitive IPP sector.

During fiscal 2010, BC Hydro made considerable progress in advancing three acquisition opportunities for Independent Power Producers—the Standing Offer Program, the Bioenergy Initiatives and the Clean Power Call.

STANDING OFFER PROGRAM

The Standing Offer Program was launched in April 2008 following BCUC approval. This program offers a fixed energy price and streamlined acquisition process for clean, renewable or high-efficiency cogeneration electricity projects with a capacity greater than 50 kW up to 10 MW. To date, BC Hydro has received 24 applications under the Standing Offer Program for a total of approximately 482 GWh per year of energy. Of these, 16 applications are proceeding through the review process and six applications have resulted in Electricity Purchase Agreements. After two years in operation, and consistent with the terms of the program's approval, the Standing Offer Program is undergoing a program review to examine results and identify any improvements that could be made to enhance the effectiveness of the existing program.

BIOENERGY INITIATIVES

Guided by the policy actions and directions contained in the 2007 BC Energy Plan and the 2008 BC Bioenergy Strategy, BC Hydro has a number of initiatives underway to procure bioenergy from projects that utilize wood fibre and other biomass fuel sources.

The Community-Based Biomass Power Call Request for Qualifications for smaller biomass projects (less than 5 MW) was finalized and launched in April 2010. The Bioenergy Call for Power Phase II—Biomass Projects Request for Proposals for larger biomass projects, which is targeted to acquire 1,000 GWh per year of cost-effective energy, was launched on May 31, 2010. This larger call for proposals follows on the success of the 2008 Bioenergy Call for Power Phase I, which awarded four Electricity Purchase Agreements that were accepted by the BCUC under Section 71 of the *Utilities Commission Act* in July 2009.

BC Hydro launched the Integrated Power Offer in October 2009 to support its pulp and paper customers, who also generate electricity from biomass, in taking advantage of that sector's opportunity to capture federal Green Transformation Program (GTP) funding. The Integrated Power Offer capitalizes on the synergies presented when cost-effective energy efficiency savings, demand response options and electricity generation opportunities are considered together. BC Hydro has approached its qualifying pulp and paper mill customers and negotiations are now underway.

CLEAN POWER CALL

The final terms for the Clean Power Call RFP were issued in June 2008. Under the RFP, BC Hydro is targeting to purchase approximately 5,000 GWh per year of cost-effective, clean or renewable firm energy from larger projects using proven technologies, such as hydro, wind, solar and geothermal energy. In late November 2008, 68 proposals were received from 43 proponents representing over 17,000 GWh/year of firm energy. In March 2010, BC Hydro selected 23 proposals for the award of Electricity Purchase Agreements, amounting to almost 3,000 GWh per year of clean or renewable firm energy. In May, a further two proposals were selected for the award of Electricity Purchase Agreements, representing an additional 287 GWh per year of firm energy. Two projects remain under consideration in the Clean Power Call and may be selected for the award of an Electricity Purchase Agreement, depending on the progress of discussions with the proponents and the completion of adequate First Nations consultation.

ENERGY CONSERVATION AND EFFICIENCY

GUIDING PRINCIPLE:
To develop and foster an energy conservation and efficiency culture in B.C. that leads to customers choosing to make a dramatic and permanent reduction in the use of electricity.

Cathy Der, Community Outreach representative and a Surrey Food Bank representative hold up one of the Energy Saving Kits that were distributed to the food bank's clients.

BC Hydro's traditional approach to demand-side management has succeeded in driving technological change for energy efficiency. In fiscal 2010, to accomplish our vision of developing and fostering a conservation culture in B.C., we engaged British Columbians so that efficiency and conservation are a way of life and a way of doing business.

BC Hydro uses a Strategic Framework that was developed by its Electricity Conservation and Efficiency Advisory Committee that provides a solid direction for how everyone in British Columbia—individuals and families, communities, businesses, industries, governments and BC Hydro itself—can work together to make our province a leader in energy conservation.

BC Hydro has now adopted this framework as a crucial part of its planning process and has enlarged its focus to include initiatives designed to encourage a comprehensive culture of conservation at three levels: individual, market and societal. By addressing electricity demand in part through demand-side management, we aim to decrease the need for new supply, avoid additional adverse effects to the environment and increase customer satisfaction.

STRATEGIES IN THE 2009/10–2011/12 SERVICE PLAN

For fiscal 2010, this priority was separated into Energy Conservation and Efficiency, and Climate Change and Environmental Impact.

Continue to implement our 20-year demand-side management (DSM) plan that includes:

- develop and implement new electricity rate structures that encourage conservation;
- support the development and adoption of new regulations for energy efficient products and technologies;
- engage communities to be leaders in making energy efficiency a way of life and doing business;
- increase the existing portfolio of successful Power Smart programs, including behaviour programs, new segments and new technologies; and
- stimulate innovation through the advancement of new energy efficiency technologies and practices.

ENERGY CONSERVATION AND EFFICIENCY

THE POWER SMART PLAN

The demand-side management plan has a three-pronged approach to energy conservation, anticipating roughly 50 per cent of the electricity savings coming from Power Smart programs, 30 per cent from government codes and standards and 20 per cent from conservation rate structures. An integral part of the demand-side management plan involves increasing public awareness, providing education and information on energy efficient technologies and conservation actions, engaging communities and municipal leaders to include energy efficiency in their plans and promoting innovative technologies to reduce our electricity consumption.

DEMAND-SIDE MANAGEMENT (DSM)
GWh/Year

	F2008	F2009	**F2010**	F2011
Cumulative GWh/Year since F2008				
Target	300	700	1,700	2,300
Actual	326	983	1,778	

Demand-side management (DSM) reflects the cumulative rate of annual electricity savings resulting from DSM activities including programs, codes and standards and rate structures. The new programs and reported savings began in fiscal 2008, following the 2007 BC Energy Plan.

The reported cumulative energy savings for fiscal 2010 includes the energy under the 20-year 10,000 GWh/year Plan (Power Smart III), starting with fiscal 2008 energy savings. All areas (Residential, Commercial, Industrial, Rates, and Codes and Standards) are tracking at, or above, Plan levels. Codes and Standards are above Plan due to the impact of the Amendment 2 of the B.C. Energy Efficiency Standards Regulation on fluorescent ballasts that took effect in January 2009 and which was not anticipated in the Plan.

Targets are developed as part of the long-term DSM planning which uses the results from a Conservation Potential Review and research related to other DSM tools as benchmarks for achievable savings.

DSM reflects the cumulative rate of annual electricity savings resulting from DSM activities such as energy conservation and efficiency, and load displacement. A new method of tracking was commenced in fiscal 2008 in order to more accurately measure cumulative savings to align with targets outlined in the BC Energy Plan. The annual cumulative targets align with the BC Energy Plan's 50 per cent energy conservation and efficiency target, and have been updated to reflect the 2008 Long-Term Acquisition Plan targets which correspond to a target of 10,000 GWh savings by 2020.

Leigh Ann Shoji-Lee, Transmission and Distribution Operations and Engineering senior vice president (right) presents Employee Conservation Leadership Awards to Matt Pritchard, new vehicle manager and Steve Boyle, engineer, of Fleet Services.

POWER SMART LEADERSHIP

To help promote conservation, BC Hydro established Team Power Smart in 2007, enlisting a number of high profile business, political, community and sports leaders who have roots in B.C. and share a passion for energy efficiency and conservation to join the team. These leaders continue to be committed to making changes in their own lives that lead to energy conservation and efficiency, with the goal of encouraging British Columbians to participate in conservation activities. Highlighting the stories and commitment of our Team Power Smart leaders in our promotional campaigns helped to contribute to our goal of recruit 210,000 Team Power Smart members by 2010.

Lead By Example

The Lead by Example program has continued to evolve, calling for aggressive action in identifying and implementing energy efficiency projects in BC Hydro's own facilities including leading edge technologies and demonstration projects, as well as greater and more productive engagement of BC Hydro employees and policies. This year, the number of volunteer Green Teams more than doubled and represent facilities which house over 80 per cent of all BC Hydro staff.

CONSERVATION CULTURE

BC Hydro encourages B.C. residents to show their personal leadership by joining Team Power Smart (bchydro.com/youraccount/teampowersmart/Join.do) and setting an energy reduction target online. As part of the company's involvement with the Vancouver 2010 Olympic and Paralympic Winter Games, BC Hydro issued a challenge to British Columbians for 210,000 people to sign up for Team Power Smart. This target was exceeded by the end of Vancouver 2010 Olympic and Paralympic Winter Games.

ENERGY CONSERVATION AND EFFICIENCY

POWER SMART RESIDENTIAL PROGRAMS

BC Hydro continued to offer a range of programs and initiatives targeted to residential customers.

In fiscal 2010, BC Hydro expanded its partnership with existing lighting manufacturers and retailers resulting in close to 80,000 ENERGY STAR® light fixtures being sold in B.C.; a 300 per cent increase over fiscal 2009. The effort included a large promotional campaign in the spring and again during Power Smart Month in October.

BC Hydro also expanded its Low Income program which addresses barriers that prevent low income households from participating in demand-side management programs. The program offers energy saving kits that include energy efficient light bulbs, low flow shower heads and other products to help families save money on their energy costs, and more than 11,500 kits were distributed. The program also expanded to include free energy audits and the installation of an array of free energy efficient technologies to qualifying customers.

BC Hydro also launched its ENERGY STAR television program. It works in conjunction with manufacturer and retail partners to promote and showcase televisions that are even more energy efficient than standard ENERGY STAR models.

POWER SMART BUSINESS PROGRAMS

For large commercial, government, institutional and First Nations customers, BC Hydro continues to offer the Power Smart Partner Program. The primary objective of the program is to encourage customers to integrate energy efficiency into all aspects of their business. The program provides tools and financial resources to integrate a sustainable energy conservation management approach. New initiatives were launched including workplace conservation targeting employee awareness and engagement in the workplace, and lighting redesign.

Power Smart successfully hosted its premier events, the Power Smart Forum and Power Smart Excellence Awards. The Power Smart Forum achieved record breaking attendance numbers of more than 900 people, an increase of over 30 per cent from 2008.

For small and medium business customers (SMB), BC Hydro continued to offer the Product Incentive Program which provides SMBs financial incentives to retrofit existing, inefficient technologies with over 20 energy-efficient products. BC Hydro expanded the Product Incentive Program by targeting small, hard-to-reach commercial customers with its Direct Install Program, which has positively affected and acquired savings from small businesses in communities such as Vancouver's Chinatown.

For the new commercial building market, BC Hydro offers the New Construction Program which provides incentives and tools to help developers and owners to build high-performing energy efficient buildings. New program initiatives were launched to the market including a tiered incentive model. The New Construction Program has been instrumental in influencing the design and implementation of energy conservation measures in new construction projects such as the South East False Creek Olympic Village.

BC Hydro entered into a number of key partnerships including:

- a Conservation Agreement with the BC Building Operators and Managers Association (BOMA);
- a partnership with the University of British Columbia to develop and deliver an Energy Efficiency and Conservation course;
- a partnership agreement with Natural Resources Canada to combine application processes in order to reduce customer confusion;
- a MOU with Terasen Gas that will enable the delivery of DSM initiatives to residential and business customers; and
- a MOU with the City of Vancouver to collaborate in four key areas:
  - developing neighbourhood renewable district energy systems,
  - building a charging network for electric vehicles,
  - creating financing tools to enable profitable investment in building energy retrofits, and
  - undertaking joint long-term planning of energy infrastructure.

ENERGY CONSERVATION AND EFFICIENCY

Industrial

The federal government's announcement of Green Transformation Funds in fiscal 2010 provided needed capital in the pulp and paper sector for new projects. To leverage these funds, BC Hydro developed an Integrated Power Offer (IPO) that integrates energy efficiency and generation projects. A new phase of the Power Smart Partners—Transmission program was developed which includes the energy efficiency funding to support the IPO and other innovative approaches in mechanical pulping, new technology initiatives, revised incentives and additional enabling activities. New plant design energy studies tracked ahead of plan with a strong conversion rate to projects, and the Industrial New Plant Design Program also addressed energy efficiency opportunities in new industrial construction in B.C.

Local Government and Communities

BC Hydro continues to work with communities across the province in advancing energy conservation at a local level by supporting increased Power Smart knowledge within local governments and community members. This has been achieved through the delivery of targeted workshops on topics such as community energy and emissions plan development, district energy, and partnering for community-based change. Additionally, a new section has been added to the bchydro.com website to further build understanding of energy conservation opportunities for communities. The website's interactive map showcases several communities in B.C. that have in worked with BC Hydro on sustainable energy planning initiatives.

POLICIES, CODES AND STANDARDS

Amendment 3 to the BC Energy Efficiency Standards Regulation was announced in September 2009. The amendment includes higher energy efficiency requirements for industrial motors and electric water heaters as well as mandating the use of higher efficiency lamps one year earlier than the federal government. This will result in an estimated savings of approximately 160 gigawatt hours per year of electricity usage in year 2020. In addition, BC Hydro also partnered with the City of Vancouver to publish the Passive Design Tool Kit which is used to support the City's Passive Design Land Use Policy development work. Passive design is an approach to building design that uses the architecture to minimize energy consumption and improve thermal comfort in new buildings. At the federal level, BC Hydro continues to be a key participant and instigator for product energy efficiency standards development work through organizations such as the Canadian Standards Association.

ADVANCING ENERGY EFFICIENCY TECHNOLOGY

BC Hydro initiated a variety of technology demonstration projects including an Olympic Legacy project to evaluate the effectiveness of Light Emitting Diode (LED) street lighting in historic Yaletown. BC Hydro investigated opportunities for Net Zero Energy buildings including the Whistler PassivHaus, which served as the national house for the Austrian Olympic Committee and will remain as a municipally owned and operated facility.

Our research and demonstration efforts identified five innovative technologies to help our customers conserve electricity, including:

- a variable speed water circulation pump shown to achieve 75 per cent energy savings in commercial and multi-unit residential buildings;
- electronic metal halide ballasts (industrial lighting) for big box and warehouse applications;
- a dry bulb temperature controller to correct the operation of the economizer cycle on roof-top HVAC units; and
- two oxygen diffusion systems for wastewater treatment applications.

We have continued to foster partnerships with other utilities and North American research institutions including the Office of the Future consortium, University of British Columbia, Metal Mining and Pulp and Paper research initiatives. In addition, we initiated a new partnership with the U.S. Department of Energy to bring the *Bright Tomorrow Lighting Prize* to customers in British Columbia.

Technology

BC Hydro works with partners such as Powertech, the British Columbia Institute of Technology and other external technology-related organizations to explore innovative tools and techniques. Innovative technology will be essential as we strive to address business issues such as: creating a safer work environment, achieving our conservation and environmental goals and improving our system performance. This includes taking a forward look at how developing technologies may be adopted in our workplace, or a look at how existing technologies can be adapted to our workplace to enhance the safety and productivity of our operations.

ENERGY CONSERVATION AND EFFICIENCY

BC Hydro has initiated technology demonstration projects and participated in several studies on emerging technologies and strategic topics. Several technologies were adopted into marketing programs this year, including adaptive street lighting, high flux LED lighting for area lighting retrofits, and lighting for refrigerated cases in grocery stores. New partnerships have been established—we are a participant in the Office of the Future consortium led by California and other U.S. utilities; BC Hydro is working with the University of British Columbia and the mining industry to develop a research program to improve energy efficiency in metal mining; and we have been a catalyst to initiate discussion and sharing of information on emerging technologies among some 15 utilities and organizations across North America.

CONSERVATION RATE STRUCTURES

One of the three pillars of BC Hydro's demand-side management plan is conservation rate structures. In October 2009, after an extensive customer and stakeholder engagement process, BC Hydro submitted its rate restructuring application for the Large General Service (LGS) customer class to the British Columbia Utilities Commission (BCUC) for approval. This application proposes to restructure the existing LGS rate to send a more efficient price signal that encourages conservation and the efficient use of electricity. This application is currently undergoing regulatory review. BC Hydro also submitted its Transmission Service Rate (TSR) Three-Year Summary Report, providing an assessment of large industrial rates from fiscal 2007 to fiscal 2009, to the BCUC. Following a public regulatory process, the BCUC submitted their report summarizing the TSR Three-Year Summary Report and providing recommendations for the TSR rate structure to the provincial government. The two-step Residential Conservation Rate has been in place since October 2008. Since the implementation of the new rate structure, BC Hydro has focused on communicating conservation opportunities to residential customers and on implementing processes to measure the effects of the new rate.

POWER SMART SCHOOLS PROGRAM

In support of BC Hydro's 2010 Olympic sponsorship, the Energy Challenge program was delivered to more than 12,000 Elementary School students in January and February. Messaging focused on linking the "Greenest Games Ever," with activities supporting students and teachers to make their school a greener school.

School Programs supported the Power the Games Tour and the Power Smart Olympic Village. Over 8,000 students were able to celebrate the history and energy future of our province, test their knowledge of power smart behaviour and enjoy Olympic-themed activities.

Energy Ambassadors students in the secondary schools supported their school district energy conservation initiatives by making presentations to elementary schools for Earth Hour.

WE'RE LOOKING FOR GREAT IDEAS TO PROMOTE SUSTAINABILITY.

Outreach representative, Jennifer Masson, (right) talks to a student about BC Hydro's Invent the Future sustainability contest, which asks students to develop an idea for a sustainable product or lifestyle change that will minimize energy consumption.

INVENT THE FUTURE

The Invent the Future 2009 contest was the third evolution of BC Hydro Power Smart's annual youth campaign. This online contest is designed to bridge the gap between intent and action among B.C.'s youth interested in reducing energy use. Youth between the ages of 13 to 24 were asked to submit an idea for a sustainable product or lifestyle change that will minimize energy consumption in B.C. Ideas were submitted as either a 30-60 second video or a short essay. The contest attracted a total of 266 entries, approximately 9,000 voters and more than 37,000 website visits. The winners have been invited to participate in a 12-month mentorship designed to provide insight, guidance and tools to assist them in advancing their winning concept into a workable project or feasible policy change. Submissions for the contest can be viewed at www.inventthefuture.ca.

CLIMATE CHANGE AND ENVIRONMENTAL IMPACT

BC hydro
PLUG-IN
ELECTRIC

GUIDING PRINCIPLE:
To have no net incremental environmental impact by 2024 when compared with 2004.

By adding a Plug-In Conversion Module to a stock BC Hydro Prius Hybrid car, the car's electrical capacity is increased by more than 10 times.

THE ENVIRONMENT AND CLIMATE CHANGE

BC Hydro is committed to producing, acquiring, delivering and consuming electricity in an environmentally, financially and socially responsible manner. We have a system in place to manage the environmental risks associated with our work in a consistent and conscientious way.

Climate Change and Environmental Impact is one of BC Hydro's short-term priorities, and is pursued through the company's efforts to avoid, minimize and offset impacts to Air, Land, Water and Climate Change.

BC Hydro has an Environmental Responsibility Policy that describes BC Hydro's commitment to environmental performance and guides the development and implementation of the environmental management system and practices. BC Hydro views compliance with environmental legislation as a legal imperative however we are also committed to performing beyond legislated environmental requirements where it makes sound business sense. Business decisions about environmental risk at BC Hydro consider environmental, social and economic objectives to deliver reliable power, at low cost, for generations in accordance with our values in a structured and systematic way to balance competing objectives.

In fiscal 2010, we continued to mitigate environmental risks with a number of programs and initiatives, including our greenhouse gas initiative, wildlife management programs, and creating baseline impact metrics that will be used to measure and track our progress toward our goal of "no net incremental environmental impacts."

With the April 2010 announcement of the *Clean Energy Act*, BC Hydro will be actively involved in pursuing specific energy objectives that will encourage conservation, further reduce the province's greenhouse gas emissions and strengthen environmental protection in clean electricity development.

CLIMATE CHANGE AND ENVIRONMENTAL IMPACT

STRATEGIES IN THE 2009/10–2011/12 SERVICE PLAN:

- develop strategies to manage risks associated with regulation and legislation, including species and ecosystems at risk, fisheries and wildlife management objectives and GHG emissions targets;
- develop and implement an action plan to identify, quantify and execute GHG reductions from our vehicle fleet and buildings, recognizing that outstanding emissions will need to be offset by purchasing high-quality B.C. GHG offsets from the Pacific Carbon Trust to meet B.C.'s carbon-neutral goal for the public sector;
- forecast GHG emissions out to 2020 from all sources, including electricity generation, consistent with the resource mix identified in the 2008 Long Term Acquisition plan, and identify emission reduction opportunities to ensure BC Hydro contributes to meeting the Province's climate action targets;
- ensure BC Hydro has a plan in place to meet our compliance obligations under the *Greenhouse Gas Reductions (Cap and Trade) Act* and forthcoming regulations under the *Environmental Management Act*;
- assess options to adapt our operations and activities to the potential physical impacts of climate change;
- understand the ecosystem services that support our business, such as the natural cycles in climate and water, and how a credible internal offset system might be applied when environmental impacts cannot be avoided or reduced; and
- increase employee awareness and accountability for environmental objectives.

RISK MANAGEMENT FRAMEWORK

We recognize that environmental risks are associated with our work and we have a system in place to manage those risks to minimize impact to the air, land and water surrounding our operations. Environmental risks, such as the release of hazardous materials into the environment or harm to fish and wildlife habitat, are managed through our Environmental Management System (EMS). BC Hydro uses barriers and controls as a first line of defence to prevent environmental impact, with effective mitigation strategies in place should preventative measures fail. Potential environmental hazards such as the use of lubricating oil at generating stations and managing vegetation in riparian areas are identified, tracked, and managed. At BC Hydro, we use the EMS to apply a consistent, systematic and integrated approach to decision making and work planning.

BC Hydro's Environmental Risk Management and Reporting Framework, introduced in fiscal 2009, provides a structured approach to environmental risk assessment and is an integral component of our Environmental Management System (EMS). Implementation of the Framework continued throughout fiscal 2010 with the development of hazard registries and the identification and implementation of barriers to reduce our environmental risks which help prevent environmental impacts.

ENVIRONMENTAL MANAGEMENT STRATEGIES

BC Hydro's environmental commitments include the Climate Change and Environmental Impact goal, the Environmental Responsibility Policy, Water Licence Requirements, Service Plan Commitments, support for implementing the provincial government's Energy Plan and Climate Action Plan as well as a number of voluntary actions such as reporting through the Global Reporting Initiative.

One example of our strategic approach can be seen in our Climate Action Strategy, where the emerging international policy landscape is likely to include increasing constraints on greenhouse gas (GHG) emissions that will result in changes to regional, national, and likely North American regulatory and market conditions. In addition, the Province of B.C. has shown leadership in their multi-pronged approach to meeting the stated GHG reduction targets through regulation, market mechanisms of cap and trade and offsets, fiscal measures and behaviour change programs. Establishing a clear compliance plan for GHG emissions remains a key priority for BC Hydro given the rapidly-evolving state of provincial, federal, and international GHG legislation.

CLIMATE CHANGE AND ENVIRONMENTAL IMPACT

ENVIRONMENTAL INCIDENT REPORTING

Environmental incidents are communicated and reported internally through the Environmental Incident Reporting (EIR) system, which provides operators, managers and senior decision-makers information to manage incidents, identify trends, track corrective actions, and helps address underlying issues to prevent future incidents. In fiscal 2010, reported incidents increased 33 per cent over the previous year. The majority of the 385 reported incidents had almost zero to low environmental consequence as measured using our enterprise-wide risk matrix. No moderate to high level impact environmental consequence events occurred. The increase in almost zero to low environmental impact events is due to an increased effort to report all incidents, even when no environmental impact occurs.

CLIMATE CHANGE POLICY AND WORK / GREENHOUSE GASES

BC Hydro is consistently one of the lowest greenhouse gas (GHG) emitters in the North American electricity industry. BC Hydro's climate action strategy has two key objectives: to maintain a low-carbon electricity supply for our customers; and to leverage our low-carbon electricity supply to support provincial GHG reduction targets and policies for a low-carbon economy. Implementing the strategy will build on existing partnerships and programs, such as Power Smart, Resource Smart and clean energy acquisition, to achieve our objectives.

BC Hydro has also been reporting emissions voluntarily since 1995 in accordance with international best practices such as the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol. These emissions, representing our current greenhouse gas inventory by source categories, are presented in the table below and cover the 2004 through 2009 calendar years. These emissions are measured by calendar year, are consistent with reporting protocols, and represent an important metric of our Environmental Impact.

As noted in our fiscal 2010 performance results, BC Hydro has set targets for GHG emissions. We have established two metrics, one for overall GHG emissions, and one to track performance toward carbon neutral public sector objectives. Our performance toward these targets for fiscal 2010 is described below.

GREENHOUSE GAS EMISSIONS

	GHG EMISSIONS BY CALENDAR YEAR (KT CO_2E)					
SOURCE	2004	2005	2006	2007	2008	2009
Scope 1 Direct Emissions						
Stationary combustion (electricity generation)	454	284	581	292	382	355
Stationary combustion (space heating)	3	3	3	4	5	5
Mobile combustion (fleet vehicles)	16	16	16	20	20	23
Fugitive emissions (SF_6 releases)	11	9	11	10	9	12
Total Scope 1 Direct Emissions	**483**	**312**	**612**	**325**	**417**	**395**
Scope 2 Energy Indirect Emissions						
Stationary combustion (electricity and steam consumed by BC Hydro)	1	1	1	1	2	2
Total Scope 2 Energy Indirect Emissions	**1**	**1**	**1**	**1**	**2**	**2**
Scope 3 Other Indirect Emissions						
Stationary combustion (electricity purchased from Independent Power Producers)	967	1,082	765	1,093	1,118	938
Mobile combustion (business use of personal vehicles)	1	1	1	1	1	1
Total Scope 3 Other Indirect Emissions	**969**	**1,084**	**766**	**1,095**	**1,119**	**939**

Notes:

- Greenhouse gas (GHG) emissions are reported in carbon dioxide equivalent metric kilotonnes (kt CO_2e).
- GHG emissions are rounded to the nearest integer. Totals may not add up due to rounding.
- Direct and energy indirect GHG emissions are reported for facilities that are under BC Hydro's operational control.
- GHG emissions associated with the corporate operations of wholly owned subsidiaries Powerex and Powertech are included.
- GHG emissions due to electricity imports are not included.
- Fugitive SF_6 emissions from equipment under operational control of the BC Transmission Corporation are not included.
- In anticipation of meeting government carbon neutral requirements,

BC Hydro is accounting for indirect life-cycle emissions associated with the paper consumption. In calendar year 2009, these emissions were estimated to be 0.25 kt CO_2e.

- Direct and indirect emissions cannot be added to arrive at total emissions. For the purpose of target-setting, the BC Hydro Service Plan 2010/11–2012/13 contains two GHG metrics:
  1. "GHG Emissions" include all Scope 1 emissions and Scope 3 emissions from electricity purchased from Independent Power Producers; and
  2. "Carbon Neutral Program Emissions" include emissions from stationary combustion (space heating, mobile combustion (fleet vehicles), stationary combustion (electricity and steam consumed by BC Hydro) and paper consumption.
- Where historical GHG emissions do not match previously reported values, emissions have been recalculated due to changes in inventory scope and/or improvements in data collection. For more details, please refer to the fiscal 2010 Global Reporting Initiative tables at www.bchydro.com.

GREENHOUSE GAS EMISSIONS

million tonnes CO_2e – *lower is better*

	F2009	**F2010**	F2011
Target	1.60	1.55	1.50
Actual	1.46	1.31	

As an electrical utility, BC Hydro's GHG emissions fluctuate from year to year because of the need to ensure reliability under annual prevailing water conditions. Emissions are calculated from the following sources:

- Stationary combustion (electricity generation);
- Stationary combustion (buildings);
- Mobile combustion (fleet vehicles);
- Fugitive SF_6 releases; and
- Stationary combustion (electricity purchases from B.C. Independent Power Producers (IPPs).

BC Hydro's emissions for fiscal 2010 were 15 per cent less than Plan, primarily due to lower than anticipated use of the Island Cogeneration Plant (IPP) and BC Hydro's Burrard Generating Station. In May and June, the Island Cogeneration Plant was used for economic dispatch rather than as a baseload plant, and in September and October, there was a temporary outage for maintenance and commissioning testing. As of October 2009, the role of Burrard Generating Station changed as a result of B.C. Special Direction 2, to one of emergency backup supply, lowering the frequency with which it will be used.

When compared to published emission data from other Canadian hydroelectric utilities, BC Hydro's fiscal 2010 emissions for about 52,000 gigawatt hours (GWh) of generation were higher than the reported 2008 emissions of Manitoba Hydro (0.53 million tonnes CO_2e for about 35,000 GWh) and Hydro Quebec (0.23 million tonnes CO_2e for about 207,000 GWh). BC Hydro's GHG emissions per unit of net system generation (not including electricity imports) of 25 tonnes CO_2e per GWh in 2009 is significantly lower than the 2008 average GHG emissions intensity of Canadian Electricity Association (CEA) members (293 tonnes CO_2e per GWh) and CEA fossil fuel-fired generators (941 tonnes CO_2e per GWh) (CEA Sustainable Electricity: inaugural Annual Report, 2008).

BC Hydro's GHG emissions from stationary and mobile combustion were calculated using published emission factors from Environment Canada that were applied to known fuel use (from invoices). In some cases, fuel use was estimated due to lack of actual data (e.g., fuel use for some IPPs). Fugitive SF_6 releases are tracked on a calendar year basis.

Employees John Kelly (centre) and Pat Vonk (right) on the Columbia River joined by Pieter Bekker, Deputy Comptroller of Water Rights (left) and 160 lb. sturgeon.

CARBON NEUTRAL PROGRAM EMISSIONS

million tonnes – *lower is better*

	F2009	**F2010**	F2011
Target	0.0257	0.0265	0.0260
Actual	0.0273	0.0299	

[1] The BC Hydro Service Plan 2009/10–2011/12 established targets for Carbon Neutral Program Emissions for F2009, F2010 and F2011 for the first time. The F2010 and F2011 targets were recalibrated in the BC Hydro Service Plan 2010/11–2012/13 to reflect additional data on building emissions. BC Hydro has been proactively developing programs and initiatives to reduce carbon neutral emissions, including fleet greening, facility improvement and employee engagement.

GHG emissions from BC Hydro's vehicle fleet, buildings (heating, cooling and lighting), and paper use are included in the Carbon Neutral Program metric. The fiscal 2010 Carbon Neutral Program emissions were 13 per cent higher than the 0.0265 million tonne CO_2e Plan. This result is attributable to higher than anticipated levels of vehicle fuel use and building energy use. To address the largest sources of carbon neutral program emissions, a detailed assessment of fleet emission reduction opportunities was undertaken and cross business group consultation is underway. For building energy use, a business case was developed and approved, which will enable the reduction of electricity use in facilities by 40 GWh by 2015, likely achieving co-benefits in natural gas conservation.

Under the B.C. Carbon Neutral Government Regulation, public sector organizations will be required to report their emissions to the Province for the first time in 2011 for 2010 calendar year emissions. When this information becomes available, a comparison will be conducted by the BC Hydro's Carbon Neutral Program emissions to those reported by other public sector organizations.

Carbon Neutral Program emissions were calculated using published emission factors from Environment Canada that were applied to BC Hydro's known fuel use (from invoices), paper use and metered electricity use. In some cases, electricity use was estimated due to lack of actual data (e.g., electricity use for some leased buildings).

CLIMATE CHANGE AND ENVIRONMENTAL IMPACT

Environmental Impact Goal

Progress on the Environmental Impact Goal (EIG) included scientific review and refinement of metrics, baseline data collection and implementation planning. The metrics were refined based on input from BC Hydro environmental professionals and other third party advisors.

BC Hydro has collected baseline year (2004) data for:

- Climate—100 per cent of climate change emissions collected;
- Air—air impact data collected for 95 per cent (generation-related) of BC Hydro's total air emissions collected;
- Water—water metric data collected for two years for 50 per cent of our 27 generation facilities; and
- Land—land metric data collected for baseline year for 75 per cent of our 4,000 owned land parcels.

The Environmental Impact Goal measures change from year to year; therefore, publication of the metrics requires complete coverage for both our baseline year and at least one further year, which we expect to have complete data on by fiscal 2011.

ENERGY PLANNING

The 2007 BC Energy Plan directed BC Hydro to ensure that clean or renewable electricity generation continues to account for at least 90 per cent of total generation. This year, clean or renewable generation accounted for 93 per cent of BC Hydro's electricity supply.

To supplement the power from its heritage assets, BC Hydro acquires clean or renewable electricity from IPPs located in B.C. BC Hydro continued to acquire additional sources of clean or renewable electricity in fiscal 2010 by advancing three major power acquisition activities—the Clean Power Call, the Bioenergy Initiatives and the Standing Offer Program.

BC Hydro continues to actively pursue reductions in fleet emissions through several initiatives to support BC Hydro's Carbon Neutral Program.

Our fleet promotes right sizing of vehicles and works to incorporate fuel efficient models into the fleet where practical. Diesel power trains are now standard on pickups which offer fuel efficiency improvements over a gasoline engine and also the potential to run on bio-diesel. In fiscal 2010, BC Hydro's fleet consumed nearly 600,000 litres of B5 (five per cent blend of Biodiesel) which accounts for roughly 12 per cent of all diesel consumed.

CLEAN ENERGY

Percentage—*higher is better*

	F2008	F2009	**F2010**	F2011
Target	90	90	90	93
Actual	94	94	93	

BC Hydro established the Clean Energy measure as a minimum threshold target in accordance with the B.C. Government's requirement that at least 93 per cent of electricity generation in the province should be from clean or renewable resources, i.e., from biogas, biomass, energy recovery generation, geothermal, hydrocarbon, hydro, hydrogen, municipal solid waste, solar, tidal, wave, wind or other potential clean or renewable electricity sources recognized by the B.C. Government. The 93 per cent minimum threshold ensures that we contribute toward this provincial goal and try to improve upon our current performance.

The fiscal 2010 percentage is consistent with historical generation for the past five years.

An "Idle Free" program was launched in the fall of 2009 aimed at creating awareness of the costs associated with excessive vehicle idling and to encourage emission reductions. In addition, a new driver training program is being developed which will contain "Eco-driver" content to promote more efficient driving habits.

Our fleet department continues to look for new vehicles and equipment that will help to reduce fuel consumption. The fleet now consists of 119 hybrid vehicles, including two heavy duty aerial line trucks, more than any other utility fleet in Canada. Additionally, BC Hydro continues to participate in pilot projects allowing us to evaluate new technologies. Two Mitsubishi i-Miev cars, North America's first production-ready highway-capable electric cars, were introduced to the fleet in November 2009.

ELECTRIC TRANSPORTATION

BC Hydro completed its Electric Transportation Strategy in fiscal 2010 and began preparing for the arrival of the electric cars expected in 2011. Electric vehicles will represent a significant new load as well as a new set of customer expectations. Much of fiscal 2010 was spent building the internal capacity in order to mainstream electric vehicle (EV) preparedness work into the day to day operations of the company. Agreements were signed with major automakers including Mitsubishi and Nissan that will ensure B.C. is a launch market and that BC Hydro will have early access vehicles so that their impact on the system can be carefully evaluated. One example of this was the agreement between BC Hydro and General Motors to showcase the Chevrolet Volt at BC Hydro's Olympic Power Smart Village pavilion during Vancouver 2010 Olympic and Paralympic Winter Games.

RECYCLING AND WASTE MANAGEMENT

The sustainable management of waste and recyclable materials from our business is an important part of our overall strategy to reduce environmental impacts from our operations.

Managing PCBS

A large portion of BC Hydro's older electrical oil filled equipment contains low but detectable levels of PCBs. BC Hydro is reducing the amount of PCB contaminated equipment in use within the Distribution and Generation Systems on an ongoing basis through planned equipment upgrades and replacements with new non-PCB containing units.

In fiscal 2010, BC Hydro successfully completed replacement of the distribution padmount transformers known to contain PCBs at levels subject to the federal PCB Regulations 2009 phase out deadline. BC Hydro is developing phase out plans for the remainder of the PCB-containing equipment, system wide, subject to the regulatory end of use deadlines. The plans will comply with the regulatory requirements while addressing risk related to safety, reliability, costs and the environment.

Management of Contaminated Sites

BC Hydro owns a large number of sites, both operating and dormant. Some of these sites have been contaminated as a result of past industrial or operating practices. We continue to investigate these sites, prioritize them based on risk, and implement management strategies that consider triple bottom line principles.

Rock Bay Remediation Project

The Rock Bay Remediation project, located in Victoria, is BC Hydro's most complex historic contaminated site, dating from the 1860s and originating from BC Hydro predecessor companies. In 2004, Transport Canada and BC Hydro reached an agreement on a plan to jointly remediate the main site and the bay and foreshore. Significant amounts of the coal tar-contaminated soil on the main site were removed in two stages, as was all of the PCB-contaminated soil.

Some contamination still remains. A portion of the PCB-contaminated soil is currently held in a secure, permitted storage cell on site and will be disposed of as part of ongoing environmental restoration activities for Rock Bay. Plans are being developed to address other remaining contamination. Testing required by the provincial Ministry of the Environment for a Certificate of Compliance on BC Hydro property is underway. While the agreements with Transport Canada expired in 2008, discussions with Transport Canada regarding plans to finalize remediation of the bay and foreshore have recommenced.

RESOURCES RECOVERED AND SOLID WASTE

	F2006	F2007	F2008	F2009	**F2010**
Total Resources Recovered (tonnes)	4,205	4,527	6,216	6,047	8,299
Solid Waste to Landfill (estimated tonnes)	1,355	1,509	2,287	3,081	2,584
Landfill Diversion Rate (non-hazardous solid waste) (percentage)	77	77	77	69	**78**

The statistics shown only reflect materials flowing through BC Hydro's Materials Distribution Center (MDC) in Surrey and do not represent all of BC Hydro's waste disposal and recycling.

Total resources recovered increased in fiscal 2010 in large part due to a increase of metal, ceramics (which includes concrete) coming into MDC for disposal. This increase is likely due to an increase of equipment replacement. Wood pole recycling statistics have increased as a result of a new wood pole management company being used that estimates a much larger portion of the wood can be diverted from landfill. Cardboard recycling increased due to the recycling effort mainly through the Salvage Warehouse. Toner cartridges increased due to increase of this material coming into MDC for disposal. E-resources (formerly e-waste) recovery has decreased this year likely due to a decrease in the quantity of equipment slated for replacement. Amounts shown include resources recycled on behalf of the British Columbia Transmission Corporation.

The decrease in solid waste to landfill is a result of less wood pole waste going to landfill. This is due to the fact that a new wood pole management company is being used that estimated a large increase in the amount of wood waste that it may be able to divert from landfill. Amounts shown are estimated and do not include materials that may have been disposed by individual facilities without notifying the Materials Management Business Unit.

Landfill diversion rate estimates the percentage of total solid, non-hazardous waste prevented from going to landfill due to reuse, refurbishment or recycling. It is calculated by dividing the total weight of all materials recycled by the total weight of all incoming end-of-life material, for the period shown. It does not include materials that may have been disposed or recycled by individual facilities without notifying the Materials Management Business Unit.

The diversion rate increased compared to last year due to three main reasons. There was a 1,147 tonne increase in the amount of scrap metal recycled. There was a 330 tonne increase in the amount of ceramics (including concrete) that was recycled. There was a 827 tonne increase of wood poles being diverted from landfill. The wood pole landfill diversion is due to the use of a new Wood Pole management company that estimated a large increase in the amount of wood waste that it may be able to diverted from landfill.

WATER MANAGEMENT

Water Use Planning

The Water Licence Requirements (WLR) Program is responsible for delivering the monitoring studies and physical works contained in the Section 88 orders issued by the Comptroller of Water Rights. BC Hydro began implementing the WLR projects in 2006 with the Coastal and East Kootenay watersheds.

BC Hydro initiated many of the remaining Columbia WLR and many of the Duncan and Peace projects in fiscal 2010. The projects for the Coastal and East Kootenay plants also continued. The total number of monitoring and physical works projects implemented grew to 143 in fiscal 2010 from 113 in fiscal 2009. There were over 200 contracts associated with the project delivered. The range of projects address issues related to various species of fish, wildlife, recreation, water quality, industrial operations, archaeology, dust debris management and erosion. The WLR team improved its milestone delivery from 76 per cent in fiscal 2009 to 95 per cent in fiscal 2010. This reflects the improved planning and the results of training and development in project and contract management.

Fish and Wildlife Compensation Program

In partnership with the BC Ministry of Environment, Fisheries and Oceans Canada, First Nations and community stakeholders, BC Hydro has established compensation programs to mitigate historic impacts on fish and wildlife resulting from the construction of our generation facilities. Each year, we work to develop a suite of projects that contribute to the delivery of our partnership's research, restoration and conservation goals. The current focus of the Fish and Wildlife Compensation Program is the completion of Basin Plans and Species and Ecosystem Action Plans in each of the three regions where we work. Our investment in projects, averaging $7.3 million on an annual basis, continues as we build a set of measurable objectives with our partners.

Columbia

The Columbia chapter made investments of $4.84 million supporting 10 fish and 19 wildlife conservation and sustainable use projects in fiscal 2010.

Coastal

The Coastal chapter of the Fish and Wildlife Conservation Program invested approximately $1.8 million in fiscal 2010 in 26 fish and seven wildlife projects.

Peace

The Peace chapter invested $1.1 million in 25 projects, 15 fish and 10 wildlife research projects and compensation program delivery to protect and enhance fish and wildlife habitat, populations and resources during fiscal 2010.

Species at Risk

Many BC Hydro facilities and operations interact with species and ecosystems at risk. Effectively managing these interactions is an ongoing, cross-company effort. BC Hydro uses various procedures to manage potential interactions with species and ecosystems at risk, such as the following species listed under the federal *Species at Risk Act*:

- Columbia White Sturgeon;
- Nooksack Dace;
- Vancouver Island
- Marmot;
- Woodland Caribou;
- Western Screech-Owl;
- Northern Leopard Frog; and
- Great Blue Heron.

Efforts include active involvement in recovery programs for species at risk, specific work site environmental management practices for various activities (which consider avoidance and mitigation for species at risk); acquisition of certain properties to conserve and recover biodiversity in sensitive areas; active involvement in organizations and partnerships such as the Canada Intermountain Join Venture, the BC Wetland Stewardship Partnership and; membership in federal species at risk policy and regulatory working groups of national industry associations.

BC Hydro is working on a company-wide strategy to minimize environmental, regulatory, legal and reputation consequences by laying out common steps for managing species and ecosystems at risk in a manner that demonstrates due diligence.

FINANCIAL TARGETS

GUIDING PRINCIPLE:

To maintain low costs for electricity customers in B.C. over the long term, while consistently delivering 100 per cent of forecast net income.

A 188 tonne francis turbine runner arrived at the Revelstoke Generating Stations after travelling by barge between Trail and Castlegar, B.C.

STRATEGIES IN THE 2009/10-2011/12 SERVICE PLAN

- manage the short-term cost of energy by carefully deciding when to buy electricity from outside sources and when to generate it ourselves;
- manage the long-term cost of energy by conducting competitive market calls for electricity from IPPs in order to get the best price for electricity;
- keep a close watch on the economic conditions and their impact on our business and adjust our activity as necessary in response;
- continue with the productivity projects to manage costs including rationalizing IT systems, procurement and work management processes; and
- implement our 20-year demand-side management plan.

FINANCIAL TARGETS

BC Hydro's results for fiscal 2010 benefited from increased domestic revenues, lower energy costs and lower finance charges, but were adversely impacted by results from energy trading activities, higher operating costs and higher amortization expense compared to the prior year. Water inflows were 10 per cent lower than the prior year (and 13 per cent below average), resulting in lower hydro generation than in the prior year. However, market energy purchases made to meet domestic requirements were also lower due to reduced load demand, primarily from large industrial customers impacted by the global economic downturn, and lower market energy prices, resulting in an overall decrease in the cost of energy compared to the prior year. Operating costs increased largely due to a provision made in the current year for future environmental compliance and remediation expenditures, and to an increase in net benefit costs. Amortization expense increased as a result of higher assets in service in the current year related to BC Hydro's capital expenditure program, while finance charges decreased primarily due to the strengthening of the Canadian dollar and lower short term interest rates. The majority of these benefits and impacts are transferred to regulatory accounts for inclusion in future rates.

For fiscal 2010, BC Hydro's net income was $447 million, compared to $365 million in the previous year. This resulted in a return on equity of 12.49 per cent compared with 11.75 per cent for fiscal 2009.

Additional details on BC Hydro's fiscal 2010 results can be found in our financial reporting which begins on page 58.

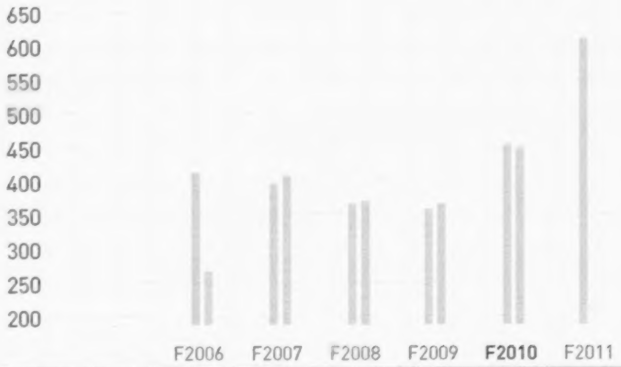
FINANCIAL TARGETS

ENERGY TRADING ACTIVITIES

Gross trade revenue for the year ended March 31, 2010 decreased by $1,356 million from fiscal 2009 due to a decrease in both electricity sales and gas sales. The decrease in gross electricity revenue of $970 million was driven by decreases in electricity sales prices of 42 per cent and a 13 per cent decrease in electricity sales volumes. The decrease in gross electricity sales included a decrease in forward electricity transactions of $369 million, which are reported on a net basis in accordance with GAAP.

Electricity sales prices decreased as a result of the current economic downturn coupled with low natural gas prices. Gross gas revenue decreased by $386 million primarily due to a 41 per cent decrease in gas sales prices driven by oversupply concerns since the beginning of the calendar year. Partially offsetting this decrease was a 13 per cent increase in gas sales volumes reflecting Powerex's strategy to continue to grow its gas business.

NET INCOME
$ in millions



	F2006	F2007	F2008	F2009	F2010	F2011
Target	$411	$375	$365	$358	$452	$609
Actual	$266	$407	$369	$365	$447	

Net income is defined as total revenue less total expenses after regulatory account transfers and represents the net impact of key economic and business factors that affect BC Hydro's performance.

Regulatory account transfers defer to future periods the recognition of costs or revenues that under Generally Accepted Accounting Principles, in the absence of rate regulation, would otherwise be recorded in the current accounting period. The deferred amounts are either recovered from or refunded to ratepayers through BCUC approved rate adjustments in future periods.

FINANCIAL TARGETS

	F2007 Actual	F2008 Actual	F2009 Actual	F2010 Actual	F2010 Target	F2011 Target
Financial Efficiency						
Net Income (After Regulatory Accounts) ($ millons)	407	369	365	447	452	609
Return on Assets (%)[1]	7.2	6.5	5.8	5.2	5.2	6.2
Return on Regulatory Equity (%)	13.44	11.33	11.75	12.49	12.54	14.37
EBIT Interest Coverage[1]	1.96	1.85	1.72	1.96	1.85	2.08
Debt to GAAP Equity	80	80	81	80	80	80
Operational Efficiency						
Operating Costs (non-fuel)/MWH Delivered ($)	11.76	11.14	13.27	15.00	15.43	N/A
Operating Costs (non-fuel)/Transmission and Distribution Line km ($)	8,401	8,057	9,251	9,933	10,375	N/A
Operating Costs (non-fuel)/Customer ($)	362	344	387	415	432	N/A
Operating Cash Flow Post Dividend to Net Capital Expenditure (%)	32	47	44	57	27	N/A
Transmission and Distribution Capital Expenditure/ Transmission and Distribution Line km ($)	7,309	8,597	12,317	11,863	12,608	N/A

[1] The calculation for EBIT has been revised to use Net Income to properly reflect BC Hydro's income performance and to make the measure comparable to other companies. Previously BC Hydro used Net Income before regulatory transfers in its EBIT calculation. Prior years Return on Assets and EBIT Interest Coverage have been restated to conform with the current methodology.

FINANCIAL TARGETS

REGULATORY

Significant regulatory activity for BC Hydro continued in fiscal 2010. The British Columbia Utilities Commission (BCUC) issued decisions on the 2008 Long Term Acquisition Plan and the Waneta Transaction. BC Hydro proposed a new rate design structure in October 2009 for its Large General Service customers and filed an across-the-board rate increase for all customers in March 2010. Details of these and other filings are outlined in the following table:

Application / Filing	Details	Status
2008 Long Term Acquisition Plan (LTAP)	The purpose of an LTAP is to identify sufficient resources to reliably serve the growing demand for electricity service within the BC Hydro service area and to inform and guide BC Hydro's resource acquisition processes over the first ten years of a 20-year study horizon. The framework for the 2008 LTAP was based on changes to the Utilities Commission Act that reflect the government's energy objectives. The 2008 LTAP application was filed with the BCUC in June 2008. An oral public hearing was held in early 2009 and a decision was issued by the BCUC in July 2009.	The BCUC approved $631 million of $633 million of proposed expenditures, including Demand-Side Management (DSM) planned expenditures of $418 million. The LTAP, as a whole, however, was rejected as not in the public interest. The BCUC rejected BC Hydro's plan to reduce its reliance for planning purposes on Burrard Thermal Generating Station to 3,000 GWh/year of firm energy. As a result, no Clean Power Call target was accepted by the BCUC. Following release of the BCUC's decision, the Province clarified Burrard's role, directing the BCUC that Burrard plans should rely on no more than 900 MW of capacity and no firm energy.
Waneta Transaction	BC Hydro sought approval, in a filing to the BCUC in July 2009, that $850 million of expenditures associated with its acquisition of a one-third interest in the Waneta Dam and generating facilities owned by Teck Metals Ltd. were in the public interest. This transaction would allow BC Hydro to gain access to a significant supply of energy and capacity from an existing generation facility within B.C. at low cost and help meet BC Hydro's self-sufficiency goal.	In February 2010, the BCUC accepted these expenditures as being in the public interest. BC Hydro and Teck closed the transaction in March 2010. Actual expenditures to complete the transaction were $841 million.
Large General Service (LGS) Rate Design Application	BC Hydro filed its LGS Rate Design application with the BCUC in October 2009. BC Hydro proposes to split the existing rate class into a large and medium commercial class. New rate structures are proposed for each new customer class to encourage conservation and energy efficiency. A Negotiated Settlement Process (NSP) under the auspices of the BCUC commenced in March 2010 to reach an agreement amongst parties on the restructuring of the commercial class rate.	The NSP was still in progress at the end of fiscal 2010.

FINANCIAL TARGETS

Application / Filing	Details	Status
Fiscal 2011 Revenue Requirement Application (F11 RRA)	BC Hydro filed its F11 RRA with the BCUC in March 2010 requesting an across-the-board rate increase of 6.11 per cent plus a three per cent increase to the Deferral Account Rate Rider. These rate increases were approved by the BCUC on an interim basis in March 2010 to take effect in April 2010. The general rate increase is attributable to the ongoing implementation of a significant capital program to refurbish BC Hydro's aging assets, an increase in the return on equity earned by government, higher costs associated with BC Hydro's pension plan reflecting the impact of market conditions on the valuation of plan assets, and expected lower trade income due to weaker export market conditions. The rate rider increase is necessary to partly recover the energy deferral accounts which increased during fiscal 2010 as a result of the impact of lower than forecast water inflows and lower than forecast trade income. Even with these proposed new rate increases, BC Hydro's rates continue to be amongst the lowest in North America.	The regulatory process to review this application commenced in early April 2010.
Major Generation Refurbishment Projects • GM Shrum (GMS) Turbine Replacement Project • Mica Gas Insulated Switchgear (GIS) project • Stave Falls Spillway Gates Project	Three generation facility refurbishment projects were filed with the BCUC during fiscal 2010. BC Hydro filed an application with the BCUC in August 2009 for expenditures related to the replacement of GMS Units 1 to 5 turbines. A written regulatory review process resulted in a BCUC decision in January 2010 accepting the $260 million project as being in the public interest. BC Hydro filed an application with the BCUC in August 2009 for $180 million of expenditures related to the Mica GIS project which would replace, with modern technology, the existing GIS at Mica. Following a written regulatory process, the BCUC issued its decision in March 2010 declining to accept the project as being in the public interest. The BCUC's concern was that the project included some pre-build components for the proposed Mica 5 and 6 project that has not yet been approved by the BCUC. BC Hydro filed an application with the BCUC in December 2009 for acceptance of an estimated $62 million of expenditures associated with the Stave Falls Spillway Gates Replacement Project. The existing gates at this facility are at end of life and their replacement will reduce dam safety risks related to any potential operational failure of the Stave Falls dam during high flood conditions.	A written process to review the application was completed in April 2010.

FINANCIAL TARGETS

Application / Filing	Details	Status
Bio-energy Call (Phase 1)	BC Hydro awarded four Electricity Purchase Agreements (EPAs) under Phase 1 of the Bio-energy Call in December 2008 for 579 GWh/year of firm energy and 60 MW of dependable capacity. The awards are consistent with a number of policy actions directed by government in the 2007 Energy Plan.	These EPAs were filed with the BCUC in February 2009. In its decision issued in July 2009, the BCUC found that the four EPAs were in the public interest.
Southern St'at'imc Communities Electrification Project	BC Hydro filed an application with the BCUC in December 2009 for the expenditures to provide electric service to the Southern St'at'imc Communities. This is the first application for a First Nations community under BC Hydro's Remote Community Electrification (RCE) program. The project is expected to cost about $30 million, with part of the expenditures to be funded by contributions from Indian and Northern Affairs Canada and the St'at'imc. A written review process resulted in a BCUC decision in April 2010 accepting the project as being in the public interest.	A written review process resulted in a BCUC decision in April 2010 accepting the project as being in the public interest.

PROCUREMENT ENHANCEMENT

BC Hydro Procurement has produced improved results in fiscal 2010. The Procure to Pay project was implemented early in the fiscal year and is achieving increased controls, greater capacity and providing higher value. In particular there has been a major reduction in policy exceptions and a significant increase in spending against existing contracts. Fiscal 2011 will see continued enhancements for greater effectiveness and efficiencies in procurement.

This year, the Strategic Sourcing program produced approximately $6.3 million in financial benefits through improved long-term contracts. This includes new contracts in fiscal 2010 in transportation, fleet disposal and outfitting; information technology hardware/software; maintenance, repair and operations (MRO) and electrical components. This program helps BC Hydro to lower costs and improve system reliability and safety while incorporating social and environmental factors.

BC Hydro has also been rolling out its Aboriginal Contract and Procurement Policy and agreed to contracts during the year for $9 million with Aboriginal businesses.

MANAGEMENT DISCUSSION AND ANALYSIS MARCH 31, 2010

The Management Discussion and Analysis reports on British Columbia Hydro and Power Authority's (the Company) consolidated results and financial position for the year ended March 31, 2010 (fiscal 2010). This discussion should be read in conjunction with the audited consolidated financial statements and related notes of the Company for the years ended March 31, 2010 and 2009. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are expressed in Canadian dollars. This report contains forward-looking statements, including statements regarding the business and anticipated financial performance of BC Hydro. These statements are subject to a number of risks and uncertainties that may cause actual results to differ from those contemplated in the forward-looking statements.

BC Hydro's results for fiscal 2010 benefited from increased domestic revenues, lower energy costs and lower finance charges, but were adversely impacted by results from energy trading activities, a provision for environmental compliance costs and higher amortization expense compared to the prior year. The majority of these benefits and impacts are transferred to regulatory accounts for inclusion in future rates.

HIGHLIGHTS

- Net income for the year ended March 31, 2010 was $447 million compared to $365 million in the prior year and $5 million below the Service Plan net income forecast.
- Hydro generation levels for the year ended March 31, 2010 were five per cent lower than in the prior year as a result of lower than average system inflows into system reservoirs due to low winter snowpacks and very low precipitation during the first half of fiscal 2010. The impact on results was partially offset by reduced domestic load requirements, primarily as a result of lower sales to large industrial customers impacted by the economic downturn during the year. As a result of reduced load in fiscal 2010, BC Hydro was not required to purchase as much energy from the market, which is more expensive than energy generated from its system, as was required in the previous year which was also a below-average water inflow year.
- Property, plant and equipment expenditures of $2,406 million are 72 per cent higher than the prior year ($1,397 million) primarily due to the BC Hydro's acquisition of a one-third interest in Teck Metals Ltd.'s Waneta dam and generating facility in March 2010. Other significant capital expenditures during fiscal 2010 include the Vancouver Island Transmission Reinforcement project, Revelstoke Unit 5 installation and system improvements to the distribution network. This is a very positive result given BC Hydro's significant capital expenditure requirements over the next several years in order to be able to continue to meet load growth requirements and maintain its aging infrastructure.

For the year ended March 31
(in millions)

	2010	2009	Change
Total Assets	$ 18,093	$ 16,329	$ 1,764
Shareholders' Equity	$ 2,674	$ 2,179	$ 495
Loss Before Regulatory Accounts	$ (249)	$ (73)	$ (176)
Net Income	$ 447	$ 365	$ 82
Accrued Payment to the Province	$ 47	$ —	$ 47
Property, Plant and Equipment Additions	$ 2,406	$ 1,397	$ 1,009
Return on Equity, as defined for regulatory purposes	12.49%	11.75%	0.74%
Debt to Equity ratio, as defined for regulatory purposes	80 : 20	81 : 19	—
Number of Domestic Customers	1,830,698	1,801,038	29,660
GWh Sold (Domestic)	50,233	52,512	(2,279)
Total Reservoir Storage (GWh)	12,328	14,915	(2,587)

FINANCIAL RESULTS

CONSOLIDATED RESULTS OF OPERATIONS

BC Hydro reports net income both before and after net changes to regulatory accounts. As a rate-regulated utility, BC Hydro applies various accounting policies that are acceptable under Canadian generally accepted accounting principles (GAAP) for rate-regulated enterprises but differ from enterprises that do not operate in a rate-regulated environment. These policies allow for the deferral of amounts that under GAAP would otherwise be recorded as expenses or income in the current accounting period. The deferred amounts are either recovered or refunded through future rate adjustments.

BC Hydro presents its financial statements on a gross view which shows its results under GAAP in the absence of rate regulation (Income/Loss Before Regulatory Account Transfers) and with rate regulation (Net Income). The net change in regulatory accounts on the income statement includes: variances between planned amounts from the most recent revenue requirements application and actual results for certain costs, including cost of energy, trade income and finance charges; certain amounts incurred in the current period that are deferred for future recovery in rates (such as demand-side management expenditures and liability provisions); interest accrued on regulatory accounts where allowed; and amortization of regulatory accounts. As a result, there can be significant differences between income before regulatory account transfers and net income.

For the year ended March 31, 2010, loss before regulatory account transfers was $249 million compared to a loss of $73 million in the previous year. The increase in the loss was a result of lower trade income, recognition of an environmental compliance provision related to polychlorinated biphenyls (PCBs) and higher amortization expense, partially offset by higher domestic gross margin, arising from both higher domestic revenues and lower energy costs and lower finance charges.

Transfers to regulatory accounts for the year were mainly comprised of additions to the Trade Income Deferral Account for differences between actual and planned trade income and transfers for other variances relating to lower interest rates, higher non-current pension costs and higher foreign exchange gains as compared to plan. Expenditures on demand-side management (DSM) and the new provision for future environmental compliance and remediation expenditures were also transferred to regulatory accounts during the year.

Energy trading activities, conducted by BC Hydro's wholly owned subsidiary, Powerex, in both electricity and gas markets, were affected by the weak economic climate in fiscal 2010. The downturn has resulted in substantially lower market prices and significantly lower price spreads compared to the previous year. Spot prices for the year were approximately 30 to 40 per cent lower on average than in the prior year. Natural gas continued to trade significantly lower as well, primarily due to increased supply in North America and lower demand coinciding with the poor economic conditions. The average daily gas price at the B.C. border for the year was down 45 per cent on average from fiscal 2009. The U.S. dollar has also weakened significantly, falling 19 per cent in the current fiscal year, resulting in foreign exchange losses on Powerex's U.S. dollar net asset position, most significantly in the first two quarters of fiscal 2010.

Net income for the year ended March 31, 2010 was $447 million, compared to $365 million in the previous year. BC Hydro's net income increased from fiscal 2009 mainly due to higher domestic gross margins partially offset by lower trade income, higher amortization and higher finance charges after regulatory deferrals.

FINANCIAL RESULTS

REVENUES

Revenues are influenced primarily by the volume of energy consumed by customers and market prices of energy. Domestic revenues are influenced by variables such as number of customers, average temperatures during the year, level of economic activity in commercial and industrial sectors, rate increases and mark-to-market gains or losses on forward energy purchase contracts which are recorded in revenues. Trade revenues are influenced by commodity prices and sales volumes for electricity and natural gas.

	(in millions)		*(gigawatt hours)*	
	2010	2009	**2010**	2009
Domestic				
Residential	**$ 1,300**	$ 1,197	**17,593**	17,861
Light industrial and commercial	**1,133**	1,054	**17,811**	18,265
Large industrial	**485**	481	**13,020**	14,303
Other energy sales	**172**	82	**1,809**	2,083
Total Domestic	**$ 3,090**	$ 2,814	**50,233**	52,512
Trade				
Electricity – Gross	**$ 1,320**	$ 2,290	**28,210**	32,504
Less: forward electricity purchases[1]	**(756)**	(1,125)	**—**	—
Electricity – Net	**564**	1,165	**—**	—
Gas – Gross	**789**	1,175	**20,632**	18,295
Less: forward gas purchases[1]	**(621)**	(885)	**—**	—
Gas – Net	**168**	290	**—**	—
Total Trade	**$ 732**	$ 1,455	**48,842**	50,799
Total	**$ 3,822**	$ 4,269	**99,075**	103,311

[1] *Forward purchases include derivatives which are deducted from gross sales in accordance with generally accepted accounting principles.*

Total revenue for the year ended March 31, 2010 was $3,822 million, a decrease of 10 per cent from the previous year mainly resulting from lower trade revenues due to lower average commodity prices and lower electricity sales volumes, partially offset by higher trade gas sales volumes. Domestic revenues were higher than the prior year due to higher average customer rates in all classes, partially offset by lower sales volumes to residential customers due to lower consumption and to light industrial and commercial and large industrial customers due to economic conditions throughout the year.

DOMESTIC REVENUES

Total domestic revenues of $3,090 million for the year ended March 31, 2010 were $276 million or 10 per cent higher than the previous year. The increase is a result of higher average customer rates in all classes, partially offset by lower consumption in the residential customer class due to warmer weather in the current year, in the light industrial and commercial class due to weak demand in the wood manufacturing industry driven by low housing starts, and in the large industrial class due to lower demand from the pulp and paper industry caused by depressed global markets for pulp and newsprint.

TRADE REVENUES

BC Hydro's electricity system is interconnected with systems in Alberta and the western United States. Interconnection facilitates sales and purchases of electricity outside of British Columbia. Energy trade activities are carried out by Powerex, a wholly owned subsidiary of BC Hydro. Trade activities help BC Hydro balance its system by being able to import energy to meet domestic demand when there is a supply shortage in the system due to such factors as low water inflows. Exports are made only after ensuring domestic demand requirements can be met.

FINANCIAL RESULTS

Gross trade revenue for the year ended March 31, 2010 decreased by $1,356 million from fiscal 2009 due to a decrease in both electricity sales and gas sales. The decrease in gross electricity revenue of $970 million was driven by decreases in electricity sales prices of 42 per cent and a 13 per cent decrease in electricity sales volumes. The decrease in gross electricity sales included a decrease in forward electricity transactions of $369 million, which are reported on a net basis in accordance with GAAP. Electricity sales prices decreased as a result of the current economic downturn coupled with low natural gas prices. Gross gas revenue decreased by $386 million primarily due to a 41 per cent decrease in gas sales prices driven by oversupply concerns since the beginning of the calendar year. Partially offsetting this decrease was a 13 per cent increase in gas sales volumes reflecting Powerex's strategy to continue to grow its gas business.

ENERGY COSTS

Energy costs are influenced primarily by the volume of energy consumed by customers, the mix of sources of supply and market prices of energy. The mix of sources of supply is influenced by variables such as the current and forecast market prices of energy, water inflows, reservoir levels, energy demand and environmental and social impacts.

Energy costs are comprised of the following sources of supply:

	(in millions)		*(gigawatt hours)*		*($ per MWh)*	
	2010	2009	**2010**	2009	**2010**[2]	2009[2]
Hydroelectric (water rental payments)	**$ 311**	$ 310	**42,115**	44,348	**$ 7.19**	$ 7.07
Purchases from Independent Power Producers and other long-term contracts	**568**	544	**8,893**	8,374	**63.85**	64.96
Other electricity purchases – Domestic	**80**	271	**2,161**	5,020	**36.97**	53.98
Gas for thermal generation	**50**	58	**400**	312	**125.08**	185.58
Transmission charges and other expenses	**73**	79	**113**	116	**—**	—
Allocation to/from trade energy	**68**	(26)	**1,525**	(65)	**36.80**	79.08
Total Domestic	**$ 1,150**	$ 1,236	**55,207**	58,105	**$ 20.83**	$ 21.27
Other electricity purchases – Trade – Gross[1]	**$ 1,114**	$ 1,729	**29,453**	32,086	**$ 37.82**	$ 53.89
Less: forward electricity purchases	**(756)**	(1,125)	**—**	—	**—**	—
Other electricity purchases – Trade – Spot	**358**	604	**—**	—	**—**	—
Remarketed gas – Gross	**746**	1,127	**21,276**	18,797	**35.06**	59.96
Less: forward gas purchases	**(622)**	(885)	**—**	—	**—**	—
Other gas purchases – Trade – Spot	**124**	242	**—**	—	**—**	—
Transmission charges and other expenses	**221**	285	**—**	—	**—**	—
Allocation to/from domestic energy	**(68)**	26	**(1,525)**	65	**36.80**	79.08
Total Trade	**$ 635**	$ 1,157	**49,204**	50,948	**$ 28.27**	$ 44.61
Total Energy Costs	**$ 1,785**	$ 2,393	**104,411**	109,053	**$ 24.34**	$ 32.17

[1] *Other electricity purchases in dollars include purchases for trade activities shown net of derivatives. Gigawatt hours and $ per MWh are shown at gross cost.*

[2] *Total cost per MWh includes other electricity purchases at gross cost.*

For the year ended March 31, 2010, total energy costs of $1,785 million were $608 million or 25 per cent lower than the previous year primarily as a result of lower market energy purchases for domestic, lower trade electricity purchase volumes and lower prices for both gas and electricity for trade.

FINANCIAL RESULTS

DOMESTIC ENERGY COSTS

Domestic energy costs of $1,150 million for the year ended March 31, 2010 were $86 million or seven per cent lower than the prior year. The decrease was primarily due to reduced volume and price of market electricity purchases driven by a reduction in load requirements of 2,279 GWh. Purchases from Independent Power Producers (IPPs) increased mainly due to additional electricity purchases from Alcan that BC Hydro was required to make due to Alcan's reduced smelter load, and from two new bio-energy projects, partially offset by reduced costs from Island Co-Generation (ICG) due to lower purchase volumes and lower gas costs.

TRADE ENERGY COSTS

Gross trade energy costs for the year ended March 31, 2010 decreased by $1,154 million from fiscal 2009 primarily due to a $615 million decrease in electricity purchases for trade and a $381 million decrease in remarketed gas purchases. The decrease in electricity purchases for trade included a decrease in forward electricity purchases of $369 million, which are netted in revenue in accordance with GAAP, and a decrease of $246 million in spot electricity purchases. Gross electricity purchases for the year reflect a 30 per cent decrease in average electricity purchase prices and an eight per cent decrease in electricity purchase volumes. The purchase price decrease was driven by the current economic downturn and low natural gas prices. Remarketed gas purchase costs decreased by $381 million driven by a 42 per cent decrease in the average gas purchase price partially offset by a 13 per cent increase in gross gas purchase volumes. As with gas sales, gas purchase volume increases reflect Powerex's strategy to grow its gas business, while the lower gas purchase prices reflect the oversupply concerns since the beginning of the year.

WATER INFLOWS

Water inflows into BC Hydro's reservoirs were 87 per cent of average in fiscal 2010, compared to 96 per cent of average in fiscal 2009. This resulted in a decrease in the volume of low-cost hydro generation.

The BC Hydro reservoirs have been managed such that the combined storage in BC Hydro reservoirs at March 31, 2010 was 94 per cent of average, compared to 114 per cent of average at March 31, 2009 (average storage levels relate to the average from 1986–2009), with the Williston reservoir on the Peace River system at 87 per cent of average (fiscal 2009—106 per cent), and the Kinbasket reservoir on the Columbia River system at 110 per cent of average (fiscal 2009—145 per cent).

The decision to purchase energy instead of utilizing hydro generation is based on many factors, such as the forecast market price of energy in future periods relative to the current period, current reservoir levels and future demand requirements. Operating constraints related to legal and regulatory obligations such as minimum reservoir levels and stream flow requirements also affect the decision to import energy.

OPERATING COSTS

Operations costs for the year ended March 31, 2010 were comparable with the previous year. Higher expenditures on DSM, which support energy conservation, were partially offset by lower First Nations negotiation and settlement costs. Both of these costs are transferred to regulatory accounts and do not impact current year net income. Excluding the costs that were transferred to regulatory accounts, operations costs were consistent with the previous year.

Maintenance costs for the year ended March 31, 2010 were $275 million higher than the previous year. The increase was primarily the result of a $289 million provision made in the current year for future environmental compliance and remediation expenditures mainly related to changes in legislation related to PCBs and for environmental impact study expenditures related to the Northern Transmission Line project, partially offset by lower expenditures on mountain pine beetle and hazardous vegetation maintenance. In addition, expenditures on generation asset maintenance were lower in the current year due to the GM Shrum turbine failure in fiscal 2009 which caused significant unplanned maintenance of $20 million in that year. Both the environmental compliance provision in the current year and the GM Shrum repair costs in the previous year were transferred to regulatory accounts and did not impact net income in either year. Excluding the costs that were transferred to regulatory accounts, maintenance costs were $11 higher in the current year largely due to unplanned transmission system projects.

General and administrative costs were $58 million higher than the previous year. The increase is primarily the result of higher net benefit costs, mainly related to an increase in non-current pension costs of $78 million due to the net actuarial loss experienced by the BC Hydro pension plan in fiscal 2009, partially offset by lower expenditures on the procurement enhancement initiative in the current fiscal year. Excluding costs that were transferred to regulatory accounts, general and administrative costs were $17 million lower than the prior year primarily due to lower net benefit costs after deferral.

AMORTIZATION EXPENSE

Amortization expense for the year ended March 31, 2010, was $50 million higher than the previous year. The increase is primarily due to higher assets in service in the current year related to BC Hydro's capital expenditure program and to a $31 million charge to depreciation expense for future environmental remediation costs related to assets that were fully depreciated in prior periods. This charge was transferred to the regulatory account for environmental compliance and did not impact current year net income.

FINANCE CHARGES

Finance charges for the year ended March 31, 2010, were $53 million lower than the previous year. The decrease was due to foreign exchange translation gains on net unhedged U.S. dollar exposures as a result of the strengthening of the Canadian dollar as compared to the U.S. dollar in the current year as compared with a significant weakening in the prior year, lower short-term interest rates and higher capitalized interest related to higher capital expenditures. These positive variances were partially offset by a higher average volume of debt, lower sinking fund income as the Canadian sinking funds were liquidated in June 2008, and higher other finance charges as the result of a payment to the Province for the carrying cost related to Provincial warehoused debt borrowings.

RETURN ON EQUITY AND PAYMENT TO THE PROVINCE

(dollar amounts in millions)	**2010**	2009
Actual return on equity[1]	**12.49%**	11.75%
Allowed return on equity[2]	**13.05%**	11.78%
Payment to the Province	**$ 47**	–

[1] Based on equity as defined for regulatory purposes and adjusted for the unplanned impact of the Waneta transaction.

[2] BC Hydro's allowed return on equity for F09 and F10 were set by the Commission via BCUC Orders G-16-09 dated March 13, 2009 and BCUC Letter No. L-55-08 dated November 20, 2008.

Under a Special Directive from the Province, BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20. The Payment accrued as at March 31, 2010, is $47 million which is below 85 per cent of the distributable surplus due to the 80:20 cap.

FINANCIAL RESULTS

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operating activities for the year ended March 31, 2010, was $373 million, compared with $254 million for the prior year. The primary reason that cash flow provided by operating activities increased in fiscal 2010 was an increase in net income.

The long-term debt balance net of sinking funds at March 31, 2010 was $10,705 million, compared with $9,325 million at March 31, 2009. The increase was mainly as a result of net long-term bond issues totaling $1,438 million, an increase in revolving borrowings of $233 million and an increase of $34 million for the net premium on new debt issues less amortization, offset by a decrease of $49 million in debt due to fair value hedge accounting and net foreign exchange revaluation gains of $276 million. Cash flow generated in the current year and proceeds from debt issues were used primarily to fund property, plant and equipment expenditures, including the $841 million acquisition of the one-third interest in the Waneta dam and generating facility.

All derivative financial instruments are required to be carried on the balance sheet at fair value. As at March 31, 2010, BC Hydro recorded a net derivative financial instrument liability of $97 million ($520 million asset less $617 million liability) compared with a net financial instrument asset of $95 million ($1,167 million asset less $1,072 million liability) in the prior year. The change resulted from significant losses on foreign currency contracts due to the strengthening of the Canadian dollar as compared to the U.S. dollar in the current year in contrast to the prior year when the weakening of the Canadian dollar resulted in significant gains, and from the decline in value of interest rate swaps as some swaps matured or were unwound while others were impacted by rising interest rates, partially offset by an increase in the value of commodity derivatives as a result of a net short position and a decrease in market prices during fiscal 2010.

PROPERTY, PLANT AND EQUIPMENT EXPENDITURES

Property, plant and equipment expenditures were as follows:

(in millions)	2010	2009	Change
Distribution improvements and expansion	$ 425	$ 399	$ 26
Generation replacements and expansion	461	349	112
Waneta dam and generating facility – one-third interest	841	—	841
Transmission lines and substation replacements & expansion	389	474	(85)
General, including computers and vehicles	290	175	115
Total Property, Plant and Equipment Expenditures	**$ 2,406**	$ 1,397	$ 1,009

For the year ended March 31, 2010, Distribution capital expenditures increased by $26 million over the prior year primarily due to higher levels of work on recurring distribution system projects, partially offset by lower customer-driven projects.

Generation replacements and expansion expenditures for the year ended March 31, 2010 increased by $953 million over the prior year. The increase was primarily due to the purchase of one-third ownership interest of the Waneta dam and generating facility. Higher current year expenditures on other projects included the Revelstoke Unit 5 Installation, the GM Shrum Station Service Replacement, the Terzaghi Spillway Gate Reliability project, the Fort Nelson Resource Smart Upgrade and the Mica Gas Insulated Switchgear (GIS) Replacement, partially offset by lower expenditures on the Aberfeldie Redevelopment that went into service in the first quarter of fiscal 2010.

Transmission capital expenditures, planned and completed by British Columbia Transmission Corporation (BCTC) and owned by BC Hydro, decreased by $85 million for the year ended March 31, 2010 compared with the prior year. The decrease was primarily due to the substantial completion of the Vancouver Island Transmission Reinforcement project in fiscal 2009, the cancellation in fiscal 2010 of two projects under the Canadian Hydro Blue River IPP project that had been active in fiscal 2009 and lower expenditures on the Dokie Wind Farm IPP project. The decrease was partially offset by increased expenditures on the Central Vancouver Island Reinforcement project, the Vancouver City Central Transmission projects and the East Toba and Montrose IPP.

General capital expenditures increased by $115 million for the year ended March 31, 2010 compared with the prior year. The majority of the increase was due to current year expenditures for the Home Purchase Offer Program in Tsawwassen, various IT&T transformational and foundational initiatives and vehicle purchases.

FINANCIAL RESULTS

COMPARISON WITH SERVICE PLAN

The *Budget Transparency and Accountability Act* requires that BC Hydro file a Service Plan each February. BC Hydro's Service Plan filed in February 2009 and in August 2009 both forecast net income at $452 million.

Domestic gross margin was lower than forecast due to lower domestic revenues, particularly in the light industrial and commercial and large industrial sectors which were impacted by weakness in the wood manufacturing and pulp and paper sectors due to economic conditions during the year.

Net trade margins were comparable to the August 2009 Service Plan Update forecast. However, energy trading results reflect a combination of lower revenues due to significantly reduced price spreads for both electricity and gas offset by lower energy purchase costs due to lower commodity prices.

Operating costs increased by $252 million from the August 2009 Service Plan Update largely due to a provision for future environmental compliance and remediation costs, partially offset by lower operating costs as a result of lower non-current pension costs, lower expenditures on mountain pine beetle and hazardous vegetation maintenance, and lower salaries and benefits due to higher than planned vacancies.

Amortization expense was $11 million higher than forecast due to an unplanned charge to depreciation for future environmental remediation costs related to assets that were fully depreciated in prior periods, partially offset by gains on asset disposals and lower than forecast dismantling costs.

Finance charges were $17 million higher than forecast, primarily due to an unplanned payment to the Province for the carrying costs of Provincial warehouse debt borrowings, partially offset by foreign exchange gains due to the higher than planned strengthening of the Canadian dollar as compared with the U.S. dollar during the year.

The majority of these variances to forecast were transferred to regulatory accounts. As a result, the actual net income of $447 million was $5 million lower than the August 2009 Service Plan Update.

The table below provides an overview of BC Hydro's financial performance relative to its 2010 to 2011 Service Plan Update (August 2009). The results and forecasts form the basis upon which key performance targets are set.

(in millions)	Actual 2008	Actual 2009	Actual 2010	Service Plan Forecast 2010	2010 Variance
Revenues					
Total Domestic	$ 2,944	$ 2,814	$ 3,090	$ 3,107	$ (17)
Trade	1,266	1,455	732	1,280	(548)
	4,210	4,269	3,822	4,387	(565)
Expenses					
Energy costs	2,057	2,393	1,785	2,302	517
Operating costs	942	915	1,249	997	(252)
Taxes	153	167	173	173	—
Amortization	368	395	445	434	(11)
	3,520	3,870	3,652	3,906	254
Operating Income	690	399	170	481	(311)
Finance Charges	463	472	419	402	(17)
Income (Loss) Before Regulatory Account Transfers	227	(73)	(249)	79	(328)
Net Change in Regulatory Accounts	142	438	696	373	323
Net Income	$ 369	$ 365	$ 447	$ 452	$ (5)

FINANCIAL RESULTS

ADOPTION OF NEW ACCOUNTING STANDARDS

Effective April 1, 2009, BC Hydro adopted the following changes to standards issued by the Canadian Institute of Chartered Accountants (CICA).

(a) Goodwill and Intangible Assets

BC Hydro adopted new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaced CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

As a result of adopting this new standard, the Company has retroactively revised the comparative statements for amounts that no longer qualify for capitalization. The effect of the change reduced opening retained earnings by $10 million, which is the amount of the adjustment related to periods prior to April 1, 2009. To reflect the write-off of amounts previously capitalized in the prior period but which no longer meet the criteria for capitalization, intangible assets decreased by $8 million and other long-term liabilities increased by $2 million, with the corresponding amount being charged to income in the prior periods. An adjustment of $1 million was also made to other long-term liabilities, with the corresponding amount being reflected in property, plant and equipment.

The Company also reclassified $118 million of clearing costs from intangible assets to lines within property, plant and equipment.

(b) Accounting for Rate-Regulated Operations

Effective April 1, 2009, the Canadian Accounting Standards Board (AcSB) removed the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation. The removal of the exemption requires the Company to now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. In applying Section 1100, the Company may consult other sources, including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Consequently, the Company has consulted and applied *Accounting Standards Codification (ASC) 980*, "Regulated Operations", (previously Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*) as issued by the U.S. Financial Accounting Standards Board to its rate-regulated operations and has determined that all regulatory assets and liabilities continue to qualify for recognition under Canadian GAAP. As a result, the removal of the temporary exemption under Section 1100 did not impact the Company's consolidated financial statements.

(c) Financial Instruments

For the year ended March 31, 2010, BC Hydro adopted the amendments to CICA Handbook Section 3862—*Financial Instruments—Disclosures*. The amendments require the classification and disclosure of fair value measurements using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments affected disclosure only and did not impact BC Hydro's accounting for financial instruments. These disclosures have been included in Note 13 to the Company's financial statements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

On February 13, 2008, the Canadian Accounting Standards Board confirmed the adoption of IFRS in place of Canadian GAAP for publicly accountable enterprises. The new requirements are effective for interim and annual reporting periods beginning on or after January 1, 2011.

In October 2009, the Canadian Public Sector Accounting Board (PSAB) confirmed the existing guidance whereby Government Business Enterprises (GBEs), which BC Hydro is classified as, adhere to standards for publicly accountable enterprises in the private sector. The Company is currently evaluating the impact of the transition to IFRS on its consolidated financial statements.

Areas with significant differences between IFRS and Canadian GAAP that would impact BC Hydro include: Regulatory Accounting, Property, Plant & Equipment, Provisions and Contingent Liabilities, Employee Benefits, and the overall presentation of financial statements. The initial adoption of IFRS under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, would also result in a number of significant changes.

Regulatory Accounting is currently under consideration by the International Accounting Standards Board (IASB) and further guidance is expected in 2010.

REGULATION

REGULATORY ACCOUNTS

BC Hydro has various regulatory accounts which were established with the approval of the BCUC. Regulatory accounts allow BC Hydro to defer certain types of revenue and cost variances through transfers to and from the accounts which has the effect of adjusting net income. The deferred amounts are then included in customer rates in future periods, subject to approval by the BCUC.

For the year ended March 31, 2010, BC Hydro transferred, on a net basis, $696 million of costs to regulatory accounts compared with $438 million during the previous year. The majority of the transfers relate to the cost of energy deferral to the Trade Income Deferral Account (TIDA), DSM expenditures and environmental compliance costs. The net balance of the regulatory asset and liability accounts as at March 31, 2010, was a $1,713 million asset compared to a $1,018 million asset at March 31, 2009. The significant increase in transfers to TIDA primarily reflect the lower than planned energy trading results in the current year as a result of significantly lower price spreads due to lower commodity prices for electricity and natural gas. The net balance in the energy deferral accounts (Heritage Deferral Account (HDA), Non-Heritage Deferral Account (NHDA), TIDA and BCTC Deferral Account (BCTCDA)) as at March 31, 2010 were a $585 million asset compared to a $332 million asset as at March 31, 2009. These energy deferral accounts are recovered through the rate rider.

REVENUE REQUIREMENTS APPLICATION

In regulating and setting rates for BC Hydro, the BCUC must ensure that the rates are sufficient to allow BC Hydro to provide reliable electricity service, meet its financial obligations, comply with government policy and achieve an annual rate of return on equity based on forecast consolidated net income. The annual rate of return on equity is equal to the pre-income tax annual rate of return allowed by the BCUC to the most comparable investor-owned energy utility regulated under the *Utilities Commission Act*. The allowed annual rate of return on equity (ROE) calculated based on equity as defined for regulatory purposes for fiscal 2010 was 13.05 per cent (fiscal 2009—11.78 per cent). The actual rate of return in fiscal 2010 was 12.49 per cent after adjusting for the impact of the Waneta Dam and generating facility acquisition.

BC Hydro's F2011 Revenue Requirement Application (RRA) was filed with the BCUC on March 3, 2010 requesting a 6.11 per cent increase to current rates. The allowed annual ROE for fiscal 2011 is 14.37 per cent. The increase over the prior year's ROE is due to the higher rate of return allowed for Terasen Gas Inc., upon which BC Hydro's ROE is based. The rate increase is attributable to the ongoing implementation of a significant capital program to refurbish BC Hydro's aging assets, an increase in the return on equity earned by government, higher costs associated with BC Hydro's pension plan reflecting the impact of market conditions on the valuation of plan assets, and expected lower trade income due to weaker export market conditions. BC Hydro also requested that the rate rider increase by three per cent to partly recover the energy deferral accounts which increased during fiscal 2010 as a result of lower trade income. The rate increases were approved by the BCUC on an interim basis on March 15, 2010 effective April 1, 2010. The RRA review process is underway and is expected to continue to the fall of 2010.

FINANCIAL RESULTS

WANETA TRANSACTION

On September 23, 2009, BC Hydro and Teck Metals Ltd. (Teck) signed an Asset Purchase Agreement for the acquisition by BC Hydro of a one-third interest in Teck's Waneta dam and generating facility near Trail, B.C., for $825 million. BC Hydro applied to the BCUC for acceptance that expenditures associated with the proposed acquisition ($825 million payment to Teck Metals Ltd. plus transaction costs) are in the public interest. A written regulatory review process was held from July to December 2009 and the BCUC acceptance of the transaction was received on February 3, 2010. BC Hydro and Teck closed the transaction on March 5, 2010.

GORDON M. SHRUM (GMS) TURBINE REPLACEMENT PROJECT

On August 5, 2009, BC Hydro filed an application with the BCUC for the expenditures associated with the Gordon M. Shrum (GMS) Units 1 to 5 Turbine Replacement Project. GMS Units 1 to 5 are late 1960's vintage turbines that have reached their end of life and require replacement. A written regulatory review process was completed in December and a decision was issued by the BCUC on January 5, 2010, accepting the $260 million project as being in the public interest.

MICA GAS INSULATED SWITCHGEAR (GIS) PROJECT

On August 5, 2009, BC Hydro filed an application with the BCUC for the expenditures associated with the Mica Gas Insulated Switchgear (GIS) Project. The existing GIS is more than 30 years old, and poses the risk of forced outage to BC Hydro. The Project will replace, with modern GIS technology, all the existing GIS at Mica. A written regulatory process was completed in December 2009. The BCUC issued its decision on March 16, 2010, declining to accept the project as being in the public interest.

LARGE GENERAL SERVICE (LGS)

An application to re-design the Large General Service (LGS) rate to provide new conservation rates for BC Hydro's Large General Service customer class was filed with the BCUC on October 16, 2009. If approved, the existing LGS rate class will be split into two new customer classes: a new large general service customer class and a new medium general service customer class. A Negotiated Settlement Process between BC Hydro and customer intervenors is currently underway. Further rate structures will be designed over the next few years to help BC Hydro meet its conservation targets.

STAVE FALLS SPILLWAY GATES REPLACEMENT PROJECT

On December 23, 2009, BC Hydro filed an application with the BCUC for acceptance of an estimated $61.5 million of expenditures associated with the Stave Falls Spillway Gates Replacement Project. The existing gates at the Stave Falls facility were installed in the 1920s and are at end of life. Their replacement will reduce dam safety risks associated with any potential operational failure of the Stave Falls dam during high flood conditions. A written process to review the application was completed at the end of April 2010.

SOUTHERN ST'AT'IMC COMMUNITIES ELECTRIFICATION PROJECT

On December 1, 2009, BC Hydro filed an application with the BCUC for acceptance of the expenditures to provide electric service to the Southern St'at'imc Communities. This is the first application for a First Nation community under BC Hydro's Remote Community Electrification program. While the total estimated cost of the project is about $30 million, BC Hydro is seeking acceptance of only $12 million of expenditures from the BCUC; the remaining expenditures are to be funded by contributions from Indian and Northern Affairs Canada and the St'at'imc. A written process to review the application concluded in February. On April 13, 2010, the BCUC determined that the project is in the public interest.

FINANCIAL RESULTS

LEGAL PROCEEDINGS

Since 2000, Powerex has been named, along with other energy providers, in lawsuits and U.S. federal regulatory proceedings which seek refunds, damages and/or contract rescissions based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and energy prices were not just and reasonable. At March 31, 2010, Powerex was owed US $265 million (CDN $269 million) by the California Power Exchange and the California Independent System Operator related to Powerex's trade activities in California during the period covered by the lawsuits. It is expected those receivables will be offset against any refunds that Powerex is required to pay.

Due to the ongoing nature of the regulatory and legal proceedings against Powerex, management cannot predict the outcomes of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the California energy crisis. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that are ultimately collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

RISK MANAGEMENT

BC Hydro faces risks to its business that could significantly impact its ability to achieve its short- and long-term financial, social and environmental goals. The goal of risk management is not to eliminate risks, but rather to mitigate them to acceptable levels which are commensurate with potential benefits to be derived. BC Hydro's strategies aim to minimize or mitigate risks with a consistent risk management process that is applied to day-to-day business activities as well as to specific projects and initiatives. BC Hydro's Chief Risk Officer is responsible for supporting this risk management process and ensuring strong oversight of significant risks by the BC Hydro Risk Management Committee. BC Hydro's Board of Directors also plays a key role in the oversight of risk management, as the Board must understand the risks being taken by BC Hydro and ensure that processes are in place to appropriately manage the risks. BC Hydro's operations involve a broad spectrum of risks ranging from those commonly associated with any business to catastrophic societal loss risks that would have severe effects on entire regions. The key risks BC Hydro faces are divided into eight categories for management purposes: employee, public and dam safety; reliability; financial performance; regulatory; First Nations; organization risk; environmental and social performance; and market dynamics

EMPLOYEE, PUBLIC AND DAM SAFETY

The generation and distribution of electricity inherently results in certain safety risks to both BC Hydro workers and the public. Safety risks to the public exist due to the multiple uses of water for electricity generation, recreation and waterways. Risks can also result from potential contact with transmission and distribution equipment located in communities. To manage the public safety risk, BC Hydro relies on safe design, construction and operating standards and practices, signage, consultation with other agencies and stakeholder groups, and public education. BC Hydro also prepares emergency response plans to limit injury and loss of life and to restore electric service.

Many of BC Hydro's employees face the risk of serious injury or death by the nature of their jobs in dealing with electrical and other high risk hazards. To mitigate these inherent risks, BC Hydro has a comprehensive safety management system that includes employee involvement, communication, training, resources, policies and safety practice regulations.

The large dams represent a catastrophic loss risk (low probability but high consequence) to BC Hydro in terms of life, safety, financial, environmental and reputation. This dam failure risk is managed through a comprehensive dam safety management system involving dam safety professionals and experts. The system incorporates dam surveillance and monitoring, periodic independent reviews of dam performance, dam investigations and analysis. Dam upgrades may be required due to changes in knowledge, standards or extreme event parameters (for earthquake, floods, landslides). BC Hydro follows the B.C. Dam Safety Regulation, participates in the Canadian Dam Association and the International Commission on Large Dams, and engages panels of international experts for independent advice on the management and control of these risks.

RELIABILITY

The most significant risks to the reliability of BC Hydro's system are aging infrastructure and the impact of weather. As BC Hydro's facilities approach end of life they require increased maintenance and capital investment. Other factors such as changing operating demands and increased use can also affect the health of the equipment. With BC Hydro's large service territory, there is significant exposure to trees, terrain and diverse weather patterns. BC Hydro mitigates the likelihood and consequence of such impacts through effective design, construction, operations, maintenance and response. Additionally, a five-year System Resiliency Program is in progress which increases the ability of the system to withstand interruptions caused by adverse weather. In managing these risks, BC Hydro balances customers' expectations and cost considerations. Reliability risks could also result from either a lack of available generation supply or the associated transmission capacity to meet customer demand. BC Hydro must meet government—permitting requirements to operate its facilities and build new infrastructure, which can have an impact on project lead times. Delays in obtaining appropriate permits and consent could adversely impact reliability.

BC Hydro manages these risks through long-term planning, asset maintenance and replacement programs, working with BCTC to mitigate transmission and substation outages, reliance on a diverse supply of energy options, and through cooperative support arrangements with neighbouring utilities.

FINANCIAL PERFORMANCE

In meeting its financial performance targets, BC Hydro faces many risks including challenging economic conditions, energy costs, energy demand, interest and foreign exchange rates, pension obligations, and energy trading. Of these, risks associated with energy costs—specifically water inflows and energy market prices—are the largest. Tariff rates are set based upon BC Hydro's cost forecast and allowed return on deemed equity. Many risks (difference between forecast and actual costs) associated with uncontrollable costs are mitigated through regulatory deferral accounts. The major cost components susceptible to variation included in the regulatory deferral accounts are water inflows, energy prices including thermal fuel costs, finance charges and trade income. In addition, the return on pension fund assets and the market discount rate at year end can have a significant impact on the cost of providing employee future benefits.

Increasing costs due to aging infrastructure, the modernization and refurbishment of the electricity system, the need for new supply and the need to manage environmental impacts create challenges for BC Hydro in maintaining the low electricity cost advantage the province enjoys. A low water year and the impacts associated with the economic downturn also create challenges in maintaining a cost advantage. How BC Hydro manages tradeoffs between these competing objectives will be important to its financial performance and its ability to make the required infrastructure investment. External long-term costs of environmental and social impacts need to be factored into decision-making today to ensure the right business decisions are made for the long-term.

FINANCIAL RESULTS

CREDIT RISK

Customer and supplier credit risk remains elevated as a result of the recent volatile economic and market conditions.

ENERGY COST

Energy cost risk is the most significant financial risk to BC Hydro and arises when BC Hydro is required to purchase electricity and/or natural gas from the markets. It can also result from changing market prices for electricity and natural gas. Overall BC Hydro system inflows during fiscal 2010 were well below average, at 87 per cent of normal. As a result, in fiscal 2010 BC Hydro was a net buyer of market electricity for the ninth year in the last ten years. The amount of energy stored in BC Hydro system reservoirs is now below the historic average for this time of year, and about 2,700 GWh lower than the system storage level last year at this time. Due to low snowpacks during the past winter, the forecast for system inflow energy in fiscal 2011 is also below average, at about 90 per cent of normal. The impact of these successive years of below-average system inflows is partially offset by reduced domestic loads due to the current economic conditions. However, even with the reduced loads and an increase in other domestic resources the system is forecast to be in a significant net deficit energy position for fiscal 2011.

Furthermore, several factors constrain BC Hydro's ability to use its stored system energy to meet load throughout the year. These factors include generating unit outages at major plants (forced outages and capital projects) as well as water management constraints which limit generation at the major plants during some periods. As a result, while the majority of the market electricity purchases can be made on a "discretionary" basis (i.e. at times of low prices), some purchases will also be required during constrained periods of the year when market prices are likely higher. The cost of all of these market purchases is subject to market price risk.

BC Hydro manages its energy cost risk through its flexible hydroelectric system, which allows water to be stored in large reservoirs and used when it is most economic, and by hedging the cost of imported electricity. This risk is also mitigated through regulatory deferral accounts which allow BC Hydro to recover its energy costs in rates provided they have been prudently incurred.

ENERGY DEMAND

Electricity demand is increasing as B.C.'s population increases and its economy grows. However, this demand can be volatile, particularly from larger customers whose consumption is often driven by export markets and world commodity prices. The forestry sector has taken a series of indefinite and permanent shutdowns which have resulted in a reduction in current and forecasted electricity demand. There are indications of an economic recovery which could lead to increased customer loads due to a combination of increased general economic activity, and the restarting of currently idled industrial capacity.

BC Hydro's risk mitigation strategy is to achieve energy security from domestic sources. BC Hydro's first and best choice for energy security is through energy conservation and efficiency. Additional choices include reinvesting in assets to prolong their life and, where possible, adding additional energy and capacity. BC Hydro is also examining the potential of new hydro generation facilities and will continue to purchase clean and renewable power from IPPs.

INTEREST RATES AND FOREIGN EXCHANGE RATES

Changes in interest and foreign exchange rates can significantly impact BC Hydro's finance charges. BC Hydro debt management and risk management strategies include limiting the allowable percentage range of variable interest rate debt and closely monitoring settlement and counterparty credit risks associated with derivative financial instruments. Interest and foreign exchange rate changes can also influence the performance and cost of BC Hydro's employee benefit and pension plans.

Interest rate risk is managed within Board approved limits and policies, which require the debt portfolio to be managed using an appropriate blend of fixed and variable rate debt, as well as by managing the term to maturity of its debt portfolio to manage exposure to interest rate movements in the future. BC Hydro utilizes financial instruments, including interest rate swaps and options, to adjust the balance of fixed and variable rate debt, and to reduce its overall cost of borrowing.

Falling interest rates resulting from the global financial turmoil have allowed BC Hydro to take advantage of the low rates for long-term debt. BC Hydro has increased its long-term fixed rate debt and has reduced its proportion of variable interest rate exposure.

BC Hydro is exposed to foreign exchange rate risk through its U.S. dollar denominated debt issues and debt servicing, U.S. dollar denominated sinking fund investments, the purchase of U.S. dollar priced electricity and natural gas, from Powerex through its U.S. trade activities, and from U.S. dollar capital equipment purchases. Foreign exchange risk is managed within Board approved limits and policies. BC Hydro utilizes financial instruments, including cross currency swaps and foreign exchange rate forward contracts, to manage its foreign exchange exposure. Both foreign exchange and interest rate risks are monitored and reported on a monthly basis.

ENERGY TRADING

BC Hydro's energy trading subsidiary, Powerex, is exposed to the risk of variable market prices and counterparties who might not meet their obligations. Powerex manages these risks by operating through defined limits that are regularly reviewed by both the Powerex and BC Hydro Boards of Directors. Powerex primarily focuses on near-mid-term trading positions, backing forward commitments with the physical supply capability of the BC Hydro System, the Canadian Entitlement, and other supply contracts, while operating within Board approved market and credit limits. Longer-term positions are reviewed in the context of the overall energy trading portfolio. Lower market electricity and gas prices have led to a contraction in locational and seasonal price spreads, lessening the potential for profit from trading activities.

Powerex is exposed to the risk of litigation, such as the potential liabilities from the California power crisis. The conduct of Powerex employees is governed by its Trading Code of Conduct and Compliance policies and procedures. Powerex also adheres to the Electric Power Supply Association's Code of Ethics and Sound Trading Practices for Electric Power Suppliers to guide its trading activities.

REGULATORY RISK

BC Hydro's proposals on revenue requirements, rate designs, long-term planning, power procurement, and major capital projects are subject to review and approval or acceptance by BCUC. Depending on the outcome of these reviews, BC Hydro may not be able to undertake some of these initiatives or certain costs incurred by BC Hydro may not be recoverable in rates. Adding to this prevalence of regulatory uncertainty is the impact of the economy on BC Hydro's revenues and costs. The BCUC established a number of regulatory accounts to deal with economic uncertainty and lessen the financial risk to BC Hydro. BC Hydro manages this regulatory risk by working to maintain positive relationships with its intervenors, stakeholders and the BCUC and ensures that its proposals and applications are well-justified and in the interests of its ratepayers.

FIRST NATIONS

First Nation consultation obligations on new projects, legal challenge from First Nations on the adequacy of consultation and alleged infringements of aboriginal rights on existing projects continue to pose risks to regulatory processes and service reliability. These risks are managed through a comprehensive and proactive Aboriginal Relations program. The long-term goal of further building business relationships with First Nations is intended to go beyond addressing the impact of BC Hydro facilities, capital projects and power acquisitions on First Nations and reducing the associated financial, legal and operating risks, to having a more proactive, mutually beneficial approach to working together.

ORGANIZATIONAL RISK

Ensuring the appropriate supply of labour in both the short- and long-term is a challenging issue for BC Hydro as well as for other utilities and businesses across North America. While the current global economic slowdown has eased some of the pressures within the external labour market and improved the attraction and retention of our workforce, certain occupation groups such as technical workers, operational managers and qualified trades people remain in limited supply across the local and broader employment marketplace. The economic downturn has had the effect of delaying employee retirements. This may result in a sudden surge of retirements in the future with shorter notice periods. While apprentice and job-sharing programs partially mitigate this risk, there remains the potential for some concern. The cost of living in many British Columbia communities continues to pose a challenge to the attraction and retention of employees as does the geographic isolation of some BC Hydro work locations. A moderately reduced attrition rate has also kept BC Hydro's retirement eligibility rate high with around 25 per cent of our current staff eligible to retire within the next 4 years. Failing to maintain and develop BC Hydro's people capacity presents risk to the ability to execute our operational and capital plans.

ENVIRONMENTAL AND SOCIAL PERFORMANCE

Areas where BC Hydro is exposed to the risk of non-compliance with environmental regulations include the release of hazardous materials into the environment and endangerment of wildlife and their habitats. Although the B.C. Government has set aggressive targets for reducing GHG emissions, significant uncertainty remains around climate change-related regulations. Efforts to limit GHGs are expected to significantly affect the costs, market value and risks associated with the evaluation of electricity generation resource options by utilities. BC Hydro also faces physical risks associated with climate change including effects on water supply, infrastructure and emergency planning. To mitigate these risks BC Hydro monitors development in GHG policy and regulation. Our climate change strategy also helps BC Hydro mitigate GHG emissions, manage regulatory risk and meet compliance requirements, as well as adapt to the potential effects of climate change. BC Hydro's environmental responsibility policy states that BC Hydro will meet or exceed environmental regulations defined by legislation, regulation, government directives and guidelines, as well as its commitments and agreements. Even if there is no environmental or social regulation, BC Hydro can face risks. These risks are managed through environmental management systems and risk mitigation strategies. BC Hydro's Board approved a corporate social responsibility policy in 2004. Voluntary action is taken with a view to managing long-term risk and for cost controls.

MARKET DYNAMICS

The dynamics among participants in BC Hydro's industry appear to be changing. Emerging business opportunities in power generation and clean energy technologies are leading to our own customers looking to play a larger role in providing electricity. We may also see an increase in fuel switching between electricity and natural gas. Risks of competition exist, however they are balanced with opportunities for collaboration and BC Hydro is taking action to establish or strengthen existing relationships with communities, technology providers, other utilities and BC Hydro customers to develop these opportunities.

FUTURE OUTLOOK

The *Budget Transparency and Accountability Act* requires that BC Hydro file a Service Plan each year. BC Hydro's Service Plan filed in early March 2010 forecasts net income for fiscal 2011 at $609 million. The Service Plan includes a 6.11 per cent interim rate increase for fiscal 2011 which was approved by the BCUC on an interim basis. BC Hydro is currently going through its revenue requirement process and the final rate increases approved by the BCUC may differ from the interim rate increase. Any difference between the final and interim rate increase will be adjusted on customer bills accordingly.

BC Hydro's results can fluctuate significantly due to various non-controllable factors such as the level of water inflows, customer load, market prices for electricity and natural gas, weather, temperatures, interest rates and foreign exchange rates. The impact to net income of these non-controllable factors is largely mitigated through the use of regulatory accounts. The Service Plan forecast assumes average water inflows for fiscal 2011, customer load of 51,550 GWh, average market energy prices of CDN $36.80/MWh, short-term interest rates of 1.02 per cent and a U.S. dollar exchange rate of US $0.9611, an allowed return on equity of 14.37 per cent, and an interim rate increase of 6.11 per cent for fiscal 2011.

FINANCIAL RESULTS

EARNINGS SENSITIVITY

The following table shows the effect on earnings of changes in some key variables. The analysis is based on business conditions and production volumes forecast for fiscal 2011. Each separate item in the sensitivity analysis assumes the others are held constant. While these sensitivities are applicable to the period and magnitude of changes on which they are based, they may not be applicable in other periods, under other economic circumstances or greater magnitude of changes.

The volatility between BC Hydro's plan and actual results are mostly mitigated through the use of BCUC-approved regulatory deferral accounts.

Factor	**Change**	**Approximate change in earnings before regulatory deferral account transfers (in millions)**	**5 year high**	**5 year low**
Hydro generation [1]	1,000 GWh	$ 40	52,140 GWh	43,208 GWh
Electricity trade margins	$1/MWh	35	n/a	n/a
Interest rates	+/- 1%	40	4.50%[2]	0.45%[2]
Exchange rates (US/ CDN)	$0.01	5	$0.97[3]	$0.84[3]
Weather	1°C change in average temperature	15	1.0°C[4]	-1.5 °C[4]
Pension costs	1% change in the expected return of 7.3% on pension assets[5]	5	18.8%	-23.3%

[1] *Assumes change in hydro generation is offset by corresponding change in energy imports (i.e. increase in hydro generation is offset by decrease in energy imports).*

[2] *Interest rates are the average Canadian short-term interest rates (3 month Canadian Dollar Offered Rate).*

[3] *Exchange rates are the average US Dollar noon rates for fiscal 2006 to fiscal 2010.*

[4] *Weather high and low numbers represents the variance in degrees Celsius from the normal temperatures over the winter months November to March from 2005/06 to 2009/10. (-1.5 degrees lower than normal to 0.4 degrees higher than normal—normal is the 10-year rolling average).*

[5] *The impact of this change affects earnings in the subsequent year.*

MANAGEMENT REPORT

The consolidated financial statements of British Columbia Hydro and Power Authority (BC Hydro) are the responsibility of management and have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements necessarily involves the use of estimates which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within the framework of the accounting policies summarized in the consolidated financial statements and incorporate, within reasonable limits of materiality, all information available at May 10, 2010. The consolidated financial statements have also been reviewed by the Audit & Risk Management Committee and approved by the Board of Directors. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, careful selection and training of qualified personnel and appropriate delegation of authority and segregation of responsibilities within the organization. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to management and the Audit & Risk Management Committee.

The consolidated financial statements have been examined by independent external auditors. The external auditors' responsibility is to express their opinion on whether the consolidated financial statements, in all material respects, fairly present BC Hydro's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. The Auditors' Report, which follows, outlines the scope of their examination and their opinion.

The Board of Directors, through the Audit & Risk Management Committee, is responsible for ensuring that management fulfills its responsibility for financial reporting and internal controls. The Audit & Risk Management Committee, comprised of directors who are not employees, meets regularly with the external auditors, the internal auditors and management to satisfy itself that each group has properly discharged its responsibility to review the financial statements before recommending approval by the Board of Directors. The Audit & Risk Management Committee also recommends the appointment of external auditors to the Board of Directors. The internal and external auditors have full and open access to the Audit & Risk Management Committee, with and without the presence of management.

Bev Van Ruyven
A/President and Chief Executive Officer

Charles Reid
Executive VP Finance & Chief Financial Officer

Vancouver, Canada
May 10, 2010

AUDITORS' REPORT

The Lieutenant Governor in Council, Province of British Columbia:

We have audited the consolidated balance sheet of British Columbia Hydro and Power Authority as at March 31, 2010 and the consolidated statements of operations, comprehensive income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of British Columbia Hydro and Power Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of British Columbia Hydro and Power Authority as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada
May 10, 2010

CONSOLIDATED STATEMENT OF OPERATIONS

for the years ended March 31 (in millions)	**2010**	*(Revised Note 1 & 2)* 2009
Revenues		
Domestic	$ 3,090	$ 2,814
Trade	732	1,455
	3,822	4,269
Expenses		
Energy Costs:		
Domestic	1,150	1,236
Trade	635	1,157
Operations	396	395
Maintenance	628	353
Administration	225	167
Taxes	173	167
Amortization (Note 7)	445	395
	3,652	3,870
Operating Income	170	399
Finance Charges (Note 8)	419	472
Loss Before Regulatory Account Transfers	(249)	(73)
Net Change in Regulatory Accounts (Note 5)	696	438
Net Income	$ 447	$ 365

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the years ended March 31 (in millions)	2010	2009
Net Income	$ 447	$ 365
Other Comprehensive Income (Loss) (Note 17)	95	(98)
Comprehensive Income	$ 542	$ 267

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the years ended March 31 (in millions)	2010	2009
Retained Earnings, Beginning of Year (As Previously Reported)	$ 2,231	$ 1,865
Adoption of New Accounting Standard (Note 2)	(10)	(9)
Retained Earnings, Beginning of Year (As Revised)	2,221	1,856
Net Income	447	365
Accrued Payment to the Province (Note 6)	(47)	—
Retained Earnings, End of Year	$ 2,621	$ 2,221

See accompanying notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

		(Revised Note 1 & 2)
as at March 31 (in millions)	**2010**	2009
ASSETS		
Property, Plant and Equipment, Net (Note 9)	**$ 13,822**	$ 11,830
Current Assets		
Cash and cash equivalents	**9**	190
Accounts receivable and accrued revenue	**650**	713
Inventories (Note 4)	**114**	178
Prepaid expenses	**135**	170
Current portion of derivative financial instrument assets (Note 13)	**434**	836
	1,342	2,087
Other Assets and Deferred Charges		
Intangible assets (Note 10)	**282**	269
Sinking funds (Note 11)	**96**	115
Employee future benefits (Note 16)	**313**	337
Regulatory assets (Note 5)	**2,152**	1,360
Derivative financial instrument assets (Note 13)	**86**	331
	2,929	2,412
	$ 18,093	$ 16,329
LIABILITIES AND EQUITY		
Long-Term Debt (Note 12)		
Long-term debt net of sinking funds	**$ 8,631**	$ 6,996
Sinking funds presented as assets	**96**	115
	8,727	7,111
Current Liabilities		
Current portion of long-term debt (Note 12)	**2,074**	2,329
Accounts payable and accrued liabilities	**1,101**	1,272
Current portion of derivative financial instrument liabilities (Note 13)	**393**	877
	3,568	4,478
Other Liabilities		
Regulatory liabilities (Note 5)	**439**	342
Deferred contributions (Note 14)	**1,079**	1,016
Derivative financial instrument liabilities, long-term (Note 13)	**224**	195
Other long-term liabilities (Note 15)	**1,382**	1,008
	3,124	2,561
Shareholder's Equity		
Retained earnings	**2,621**	2,221
Accumulated other comprehensive income (loss) (Note 17)	**53**	(42)
	2,674	2,179
	$ 18,093	$ 16,329

Commitments and Contingencies (Note 18)

See accompanying notes to consolidated financial statements.

Approved on Behalf of the Board:

Dan Doyle
Chairman

Tracey L. McVicar
Chair, Audit & Risk Management Committee

CONSOLIDATED STATEMENT OF CASH FLOWS

for the years ended March 31 (in millions)	2010	*(Revised Note 2)* 2009
Operating Activities		
Net income	$ 447	$ 365
Regulatory account transfers	(508)	(488)
Adjustments for non-cash items:		
Amortization of regulatory accounts (Note 5)	79	59
Amortization expense	445	395
Foreign exchange translation (gains) losses	(34)	33
Unrealized gains on mark-to-market	(13)	(18)
Other items	3	(22)
	419	324
Changes in non-cash working capital:		
Accounts receivable and accrued revenue	63	(31)
Accounts payable and accrued liabilities	(208)	128
Prepaid expenses	35	(72)
Inventories	64	(95)
	(46)	(70)
Cash provided by operating activities	373	254
Investing Activities		
Property, plant and equipment and intangible asset expenditures	(1,554)	(1,384)
Waneta Acquisition (Note 9)	(841)	—
Deferred contributions	101	97
Other items	2	(17)
Cash used in investing activities	(2,292)	(1,304)
Financing Activities		
Bonds		
Proceeds, net of issue costs	2,116	350
Retired	(631)	(94)
Revolving borrowings	240	687
Sinking fund withdrawals	2	509
Payment to the Province	—	(288)
Settlement of derivative instruments	11	54
Cash provided by financing activities	1,738	1,218
(Decrease) Increase in cash and cash equivalents	(181)	168
Cash and cash equivalents, beginning of year	190	22
Cash and cash equivalents, end of year	$ 9	$ 190
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 509	$ 492

See accompanying notes to consolidated financial statements.

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

PURPOSE

British Columbia Hydro and Power Authority (BC Hydro) was established in 1962 as a Crown Corporation of the Province of British Columbia (the Province) by enactment of the *Hydro and Power Authority Act*. As directed by the *Hydro and Power Authority Act*, BC Hydro's mandate is to generate, manufacture, distribute and supply power. BC Hydro's corporate purpose is to provide "Reliable power, at low cost, for generations." BC Hydro is subject to regulation (see Note 5) by the British Columbia Utilities Commission (BCUC) which, among other things, approves the rates BC Hydro charges for its services.

BC Hydro owns and operates electric generation and distribution facilities in the province of British Columbia. BC Hydro also owns transmission facilities in the province of British Columbia that are operated by British Columbia Transmission Corporation (BCTC), an independent Crown Corporation of the Province.

BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of BC Hydro and its principal wholly-owned operating subsidiaries Powerex Corporation (Powerex), Powertech Labs Inc., BCH Services Asset Corp., and Columbia Hydro Constructors Ltd., collectively with BC Hydro (the Company). All intercompany transactions and balances are eliminated upon consolidation.

The Company accounts for its one-third interest in the Waneta dam and generating facility (Note 9) as a jointly controlled asset. A jointly controlled asset is considered a joint venture as it includes the joint ownership and control of one or more assets to obtain benefits for the venturers. Each venturer takes a share of the output from the assets for its own exclusive use. These consolidated financial statements include BC Hydro's proportionate share of the Waneta dam and generating facility. BC Hydro has also included its share of any liabilities and expenses incurred jointly with Teck Metals Ltd. and any revenue from the sale or use of its share of the output in relation to the Waneta dam and generating facility.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets, liabilities and commitments at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant items subject to management estimates and assumptions include the determination of the allowance for doubtful accounts, the fair value of sinking funds and derivative financial instruments, the actuarial assumptions used to value the employee future benefit plans, the useful lives of property, plant and equipment and intangible assets, amounts for accrued liabilities and contingencies, and the accrual for unbilled revenue at period end. Actual results could differ from these estimates.

REGULATORY ACCOUNTING

BC Hydro is regulated by the BCUC and both entities are subject to general or special directives and directions issued by the Province. BC Hydro operates primarily under a cost of service regulation as prescribed by the BCUC. Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Calculation of its revenue requirements and rates charged to customers are established through applications filed with and approved by the BCUC.

BC Hydro applies various accounting policies that differ from GAAP for enterprises that do not operate in a rate-regulated environment (see Note 5). Generally, these policies result in deferral and amortization of costs and recoveries to allow for adjustment of future rates. In the absence of rate-regulation, these amounts would otherwise be included in the determination of net income in the year the amounts are incurred. These accounting policies support BC Hydro's regulation and have been established through ongoing application to, and approval by, the BCUC. When a deferral account has been or will be applied for, and, in management's estimate, acceptance of deferral treatment by the BCUC is considered probable, BC Hydro defers such costs in advance of a final decision of the BCUC. If the BCUC subsequently denies the application for regulatory treatment, the remaining deferred amount is recognized in net income.

REVENUES AND ENERGY COSTS

Domestic revenues comprise sales to customers within the Province of British Columbia, and sales of firm energy outside the province under long-term contracts that are reflected in BC Hydro's domestic load requirements. Other sales outside the province are classified as trade.

Energy trading contracts that meet the definition of a financial or non-financial derivative are accounted for on a fair value basis whereby any realized gains and losses and unrealized changes in the fair value are recognized in trade revenues in the period the change occurred.

Energy trading and other contracts which do not meet the definition of a derivative are accounted for on an accrual basis whereby the realized gains and losses are recognized as revenue as the contracts are settled. Such contracts are considered to be settled when, for the sale of products, the significant risks and rewards of ownership transfer to the buyer, and for the sale of services, those services are rendered.

Revenue is recognized on the basis of billing cycles and also includes accruals for electricity deliveries not yet billed.

FOREIGN CURRENCY TRANSLATION

Foreign currency denominated revenues and expenses are translated into Canadian dollars at the rate of exchange in effect at the transaction date. Foreign currency denominated monetary assets and liabilities are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Exchange gains or losses arising from translation of foreign denominated monetary balances and transactions are reflected in finance charges in the statement of operations.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment in service are recorded at cost which includes materials, direct and indirect labour, an appropriate allocation of administration overhead and finance charges capitalized during construction. Property, plant and equipment in service include the cost of plant and equipment financed by contributions in aid of construction and contributions arising from the Columbia River Treaty. Upon retirement or disposal, any gain or loss is charged to amortization.

Unfinished construction consists of costs of property, plant and equipment that are under construction or not ready for service. Costs are transferred to property, plant and equipment in service when the constructed asset is substantially complete and capable of operation at a pre-determined significant level of capacity.

Property, plant and equipment in service are amortized on an individual or pooled basis over the expected useful lives of the assets, generally using the straight-line method.

The expected useful lives, in years, of BC Hydro's main classes of property, plant and equipment are:

Generation	
Hydraulic	50 – 100
Thermal	10 – 50
Lines	35 – 100
Substations	20 – 50
Buildings	45 – 50
Equipment	7 – 20
Computer hardware	2 – 10
Service vehicles	7 – 20
Sundry	20 – 45

INTANGIBLE ASSETS

Intangible assets are recorded at cost. Intangible assets with indefinite useful lives are not subject to amortization. These assets are tested for impairment annually or more frequently if events indicate that the asset may be impaired.

Intangible assets with finite useful lives are amortized over their useful lives on a straight line basis. The expected useful lives, in years, are as follows:

Software	2 – 10
Land Rights	20
Clearings	100
Sundry	10 – 20

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets, including property, plant and equipment and amortized intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be fully recoverable. Recoverability of assets is measured by a comparison of the carrying amount of the asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized by the amount that the carrying amount of the asset exceeds its fair value.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash and units of a money market fund that are redeemable on demand and carried at fair value.

INVENTORIES

Inventories are comprised of materials and supplies and natural gas and are valued at the lower of weighted average cost and net realizable value. Cost of materials and supplies includes invoiced costs and directly attributable costs of acquiring the inventory. Net realizable value is the expected selling price in the ordinary course of business, less any costs expected in selling the inventory.

FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS—RECOGNITION AND MEASUREMENT

All financial instruments are required to be measured at fair value on initial recognition of the instrument, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified or designated as "held-for-trading", or classified as "available-for-sale", "held-to-maturity", "loans and receivables", or "other financial liabilities". Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition. All regular-way purchases or sales of financial assets are accounted for on a settlement date basis.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in net income. Financial assets classified as available-for-sale are measured at fair value, with changes in those fair values recognized in other comprehensive income until realized. Financial assets classified as held-to-maturity, loans and receivables, and financial liabilities classified as other financial liabilities are measured at amortized cost using the effective interest method of amortization. Derivatives, including embedded derivatives that are not closely related to the host contract and must be separately accounted for, generally must be classified as held-for-trading and recorded at fair value in the consolidated balance sheet. The classification of financial instruments is described in Note 13.

DERIVATIVE FINANCIAL INSTRUMENTS

BC Hydro and its subsidiaries use derivative financial instruments to manage interest rate and foreign exchange risks related to debt and to manage foreign exchange risks related to electricity and natural gas commodity transactions.

Interest rate and foreign exchange related derivative instruments that are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded at fair value as either an asset or liability with changes in fair value recognized in net income. For liability management activities, the related gains or losses are included in finance charges. For foreign currency exchange risk associated with electricity and natural gas commodity transactions, the related gains or losses are included in domestic revenues. BC Hydro's policy is not to utilize interest rate and foreign exchange related derivative financial instruments for speculative purposes.

Derivative financial instruments are also used by a BC Hydro subsidiary to manage economic exposure to market risks relating to commodity prices. Derivatives used for energy trading activities that are not designated as hedges, are recorded using the mark-to-market method of accounting whereby instruments are recorded at fair value as either an asset or liability with changes in fair value recognized in net income. Gains or losses are included in trade revenues.

HEDGES

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for unrealized gains or losses attributed to the hedged risk and recognized in net income. Changes in the fair value of the hedged item attributed to the hedged risk, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which is also recorded in net income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged item are amortized to net income over the remaining term of the original hedging relationship, using the effective interest method of amortization.

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized in other comprehensive income. The ineffective portion is recognized in net income. The amounts recognized in accumulated other comprehensive income are reclassified to net income in the periods in which net income is affected by the variability in the cash flows of the hedged item. When hedge accounting is discontinued, the cumulative gain or loss previously recognized in accumulated other comprehensive income remains there until the forecasted transaction occurs. When the hedged item is a non-financial asset or liability, the amount recognized in accumulated other comprehensive income is transferred to the carrying amount of the asset or liability when it is recognized. In other cases the amount recognized in accumulated other comprehensive income is transferred to net income in the same period that the hedged item affects net income.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge, the hedging relationship is discontinued, or the derivative is terminated or sold, or upon the sale or early termination of the hedged item.

FAIR VALUE

The fair value of financial instruments reflect changes in the level of commodity market prices, interest and foreign exchange rates.

Fair value amounts reflect management's best estimates considering various factors including closing exchange or over-the-counter quotations, estimates of future prices and foreign exchange rates, time value, counterparty and own credit risk, and volatility. The assumptions used in establishing fair value amounts could differ from actual prices and the impact of such variations could be material. In certain circumstances, BC Hydro's subsidiary Powerex uses valuation inputs that are not based on observable market data and internally developed valuation models which are based on models and techniques generally recognized as standard within the energy industry.

DEFERRED CONTRIBUTIONS

Contributions in aid of construction are amounts paid by certain customers toward the cost of property, plant and equipment required for the extension of services. These amounts are amortized over the expected useful life of the related assets.

Contributions arising from the Columbia River Treaty relate to three dams built by BC Hydro in the mid-1960s to regulate the flow of the Columbia River. The contributions were made to assist in financing the construction of the dams. These proceeds were deferred and are amortized to income over the period ending in fiscal 2025, the minimum term of the treaty.

ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are legal obligations associated with the retirement of long-lived assets. A liability is recorded in the period in which the obligation is incurred at the present value of the estimated future costs when a reasonable estimate of the fair value can be made. When a liability is initially recorded, BC Hydro capitalizes the costs by increasing the carrying value of the associated long-lived asset. The liability is adjusted for the passage of time through accretion (interest) expense and the capitalized cost is amortized over the useful life of the associated asset. Actual costs incurred upon settlement of an asset retirement obligation are charged against the related liability to the extent of the accrued balance. Any difference between the actual costs incurred upon settlement of the asset retirement obligation and the recorded liability is recognized as a gain or loss in earnings at that time.

DEFINED BENEFIT PLANS

The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected future health care costs. For the purpose of calculating the return on plan assets the assets are valued at fair value. The obligations are discounted using a market interest rate at the end of the year on high-quality corporate debt instruments that match the timing and amount of expected benefit payments.

Transitional obligations and assets and past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of active members at the date of amendment.

The excess of the net cumulative unamortized actuarial gain or loss over 10 per cent of the greater of the benefit obligation and the fair value of plan assets at the beginning of the year is amortized over the average remaining service period of active employees. The average remaining service period of the active employees covered by the employee benefit plans is 11 years (2009—11 years). When the restructuring of a benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

ENVIRONMENTAL EXPENDITURES AND LIABILITIES

BC Hydro conducts its operations in a manner that enables it to meet existing statutory requirements of environmental legislation or standards. The objective is to minimize the impact on the quality of the natural and social environment, providing enhancements wherever practical.

Environmental expenditures are expensed as part of operating activities, unless they constitute an asset improvement or act to mitigate or prevent possible future contamination, in which case the expenditures are capitalized and amortized to income. Environmental liabilities are accrued at the present value of the estimated future costs when environmental expenditures related to activities of BC Hydro are considered likely and the costs can be reasonably estimated. Estimated liabilities are reviewed periodically and these reviews can result in adjustments to previously recorded items.

TAXES

BC Hydro pays local government taxes and grants in lieu to municipalities and regional districts. As a Crown corporation, BC Hydro is exempt from Canadian federal and provincial income taxes.

COMPARATIVE FIGURES

Certain amounts in the prior year's statements related to operating expenses, amortization, property, plant and equipment, intangible assets, regulatory assets, deferred contributions and other long-term liabilities have been reclassified to conform to the current year's presentation.

NOTE 2: ADOPTION OF NEW ACCOUNTING STANDARDS

Effective April 1, 2009, BC Hydro adopted the following changes to standards issued by the Canadian Institute of Chartered Accountants (CICA).

(a) Goodwill and Intangible Assets

BC Hydro adopted new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaced CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.

As a result of adopting this new standard, the Company has retroactively revised the comparative statements for amounts that no longer qualify for capitalization. The effect of the change reduced opening retained earnings by $10 million, which is the amount of the adjustment related to periods prior to April 1, 2009. To reflect the write-off of amounts previously capitalized in the prior period but which no longer meet the criteria for capitalization, intangible assets decreased by $8 million and other long-term liabilities increased by $2 million, with the corresponding amount being charged to income in the prior periods. An adjustment of $1 million was also made to other long-term liabilities, with the corresponding amount being reflected in property, plant and equipment.

The Company also reclassified $118 million of clearing costs from intangible assets to lines within property, plant and equipment.

(b) Accounting for Rate-Regulated Operations

Effective April 1, 2009, the Canadian Accounting Standards Board (AcSB) removed the temporary exemption in Section 1100, *Generally Accepted Accounting Principles*, pertaining to the application of that Section to the recognition and measurement of assets and liabilities arising from rate regulation. The removal of the exemption requires the Company to now apply Section 1100 to the recognition of assets and liabilities arising from rate regulation. In applying Section 1100, the Company may consult other sources, including pronouncements issued by bodies authorized to issue accounting standards in other jurisdictions. Consequently, the Company has consulted and applied *Accounting Standard Codification (ACS) 980*, "Regulated Operations", (previously Statement of Financial Accounting Standards No. 71, *Accounting for the Effects of Certain Types of Regulation*), as issued by the U.S. Financial Accounting Standards Board to its rate regulated operations and has determined that all regulatory assets and liabilities continue to qualify for recognition under Canadian GAAP. As a result, the removal of the temporary exemption under Section 1100 did not impact the Company's consolidated financial statements.

(c) Financial Instruments

For the year ended March 31, 2010, BC Hydro adopted the amendments to CICA Handbook Section 3862—*Financial Instruments—Disclosures*. The amendments require the classification and disclosure of fair value measurements using a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments affected disclosure only and did not impact BC Hydro's accounting for financial instruments. These disclosures have been included in Note 13.

NOTE 3: FUTURE ACCOUNTING CHANGES

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the AcSB confirmed that the use of IFRS will be required in 2011 for publicly accountable enterprises. IFRS will replace Canada's current GAAP for those enterprises. In October 2009, the Canadian Public Sector Accounting Board (PSAB) confirmed the existing guidance whereby Government Business Enterprises (GBEs), which BC Hydro is classified as, adhere to standards for publicly accountable enterprises in the private sector. The official changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011 and thus will be applicable for BC Hydro's fiscal 2012 year. The Company is currently evaluating the impact of the transition to IFRS on its consolidated financial statements.

NOTE 4: INVENTORIES

(in millions)	2010	2009
Materials and supplies	$ 76	$ 75
Natural gas trading inventories	38	103
Total	$ 114	$ 178

NOTE 5: REGULATION

RATE REGULATION

On March 13, 2009, the BCUC issued its decision on BC Hydro's F2009/F2010 Revenue Requirements Application (RRA). Results for the period ended March 31, 2010 reflect this decision and all other decisions and directives issued by the BCUC during the year which affect fiscal 2010 results.

REGULATORY ACCOUNTS

The following regulatory assets and liabilities have been established through rate regulation. For the year ended March 31, 2010, the impact of regulatory accounting has resulted in an increase to net income of $696 million (2009 – $438 million increase).

(in millions)	*(Revised)* 2009	Transfers	Addition (Reduction)	Amortization	Net Change	2010
Regulatory Assets						
Heritage Deferral Account	$ 329	$ —	$ 25	$ (29)	$ (4)	$ 325
Non-Heritage Deferral Account	74	—	52	(7)	45	119
BCTC Deferral Account	9	—	10	(1)	9	18
Trade Income Deferral Account—Asset	—	—	115	7	122	122
Demand-Side Management Programs	364	—	130	(52)	78	442
First Nation Negotiations, Litigation and Settlement Costs	389	—	16	(6)	10	399
Non-Current Pension Cost	—	—	86	—	86	86
Site C	35	—	25	—	25	60
Environmental Compliance	—	—	321	—	321	321
Other Regulatory Accounts	160	(1)	95	6	101	260
Total Regulatory Assets	$ 1,360	$ (1)	$ 875	$ (82)	$ 793	$ 2,152
Regulatory Liabilities						
Future Removal and Site Restoration Costs	172	—	—	(13)	(13)	159
Trade Income Deferral Account—Liability	80	—	(80)	—	(80)	—
Foreign Exchange Gains and Losses	57	—	34	10	44	101
Finance Charges	—	—	104	—	104	104
Other Regulatory Accounts	33	—	42	—	42	75
Total Regulatory Liabilities	$ 342	$ —	$ 100	$ (3)	$ 97	$ 439
Net Regulatory Asset	$ 1,018	$ (1)	$ 775	$ (79)	$ 696	$ 1,713

(in millions)	2008	Transfers	Addition (Reduction)	Amortization	Net Change	2009
Regulatory Assets						
Heritage Deferral Account	$ 78	$ —	$ 274	$ (23)	$ 251	$ 329
Non-Heritage Deferral Account	52	43	(6)	(15)	(21)	74
BCTC Deferral Account	21	—	(6)	(6)	(12)	9
Demand-Side Management Programs	309	2	95	(42)	53	364
First Nation Negotiations, Litigation and Settlement Costs	360	13	32	(6)	26	399
Other Regulatory Accounts	113	(50)	115	7	122	185
Total Regulatory Assets	$ 933	$ 8	$ 504	$ (85)	$ 419	$ 1,360
Regulatory Liabilities						
Future Removal and Site Restoration Costs	192	—	—	(20)	(20)	172
Trade Income Deferral Account	103	—	7	(30)	(23)	80
Foreign Exchange Gains and Losses	66	—	(33)	24	(9)	57
Other Regulatory Accounts	—	—	33	—	33	33
Total Regulatory Liabilities	$ 361	$ —	$ 7	$ (26)	$ (19)	342
Net Regulatory Asset	$ 572	$ 8	$ 497	$ (59)	$ 438	$ 1,018

HERITAGE DEFERRAL ACCOUNT (HDA)

Under a Special Directive issued by the Province, BCUC was directed to authorize BC Hydro to establish the HDA. This account is intended to mitigate the impact of certain variances between the forecasted costs in a revenue requirements application and actual costs of service associated with the Heritage Resources by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $4 million increase in net income (2009—$251 million decrease).

NON-HERITAGE DEFERRAL ACCOUNT (NHDA)

Under a Special Directive issued by the Province, BCUC approved the establishment of the NHDA, which is intended to mitigate the impact of certain cost variances between the forecasted costs in a revenue requirements application and actual costs related to energy acquisition and maintenance of BC Hydro's distribution assets by adjustment of net income. In the absence of rate regulation, GAAP would require the inclusion of the cost variances deferred in the NHDA in operating results in the year in which they are incurred, which would have resulted in a $45 million decrease in net income (2009—$21 million increase).

BCTC DEFERRAL ACCOUNT

Under a Special Directive issued by the Province, variances that arise between the costs of transmission services included in BC Hydro's rates and BCTC's rates are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $9 million decrease in net income (2009—$12 million increase).

TRADE INCOME DEFERRAL ACCOUNT

Established under a Special Directive issued by the Province, this account is intended to mitigate the uncertainty associated with forecasting the net income of BC Hydro's trade activities. The impact is to defer the difference between the Trade Income forecast in the revenue requirements application and actual Trade Income. For the purposes of this calculation, Trade Income is defined as the net income of Powerex based on GAAP. The difference between the Trade Income forecast and actual Trade Income is deferred except for amounts arising from a net loss in Trade Income or the portion of Trade Income in excess of $200 million.

In the absence of rate regulation, GAAP would require the inclusion of actual Trade Income to be reflected in operating results, regardless of the variance between forecast and actual amounts, which would have resulted in a $202 million decrease in net income (2009—$23 million decrease).

DEMAND-SIDE MANAGEMENT PROGRAMS

Established under a regulatory order from the BCUC, demand-side management programs are designed to reduce the energy requirements on BC Hydro's system. Costs of the programs include materials, direct labour and applicable portions of administration charges, equipment costs and incentives. Amounts are deferred and amortized on a straight-line basis over the anticipated period of benefit of the program, generally not in excess of 10 years.

During the year ended March 31, 2010, BC Hydro has reclassified $2 million from property, plant and equipment to the Demand-Side Management Program's regulatory account and has reclassified the comparative amounts at March 31, 2009 to conform with the presentation in the current year.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria are recorded as property, plant and equipment. In fiscal 2010, $130 million of period costs were incurred and amortization of previously capitalized amounts totaled $52 million (2009— $95 million and $42 million, respectively). Consequently, net income would have been $78 million lower than would have been recorded in the absence of rate regulation (2009—$53 million decrease).

FIRST NATION NEGOTIATIONS, LITIGATION AND SETTLEMENT COSTS

Established under a regulatory order, provisions for and costs incurred with respect to First Nation negotiations, litigation and settlements are deferred and costs incurred are amortized on a straight-line basis over a period of 10 years.

During the three months ended September 30, 2009, BC Hydro determined that as at April 1, 2009, $10 million that had previously been included in the First Nations Negotiations, Litigation and Settlement Costs regulatory account should have been accounted for in the Capital Project Investigation regulatory account, which is included in Other Regulatory Accounts. The amount was reclassified as of September 30, 2009 and the reclassification has no impact on any other schedules or statements in interim reports or in the 2009 Annual Financial Report.

In the absence of rate regulation, GAAP would require period costs to be included in operating results in the year in which they are incurred. Costs relating to identifiable tangible assets that meet the capitalization criteria are recorded as property, plant and equipment. In fiscal 2010, $16 million (2009—$32 million) of period costs were recorded as regulatory assets, and the amortization of previously capitalized amounts totaled $6 million (2009—$6 million). Consequently, net income would have been $10 million lower than would have been recorded in the absence of rate regulation (2009—$26 million decrease).

NON-CURRENT PENSION COST

In its March 13, 2009 decision on the F2009/2010 RRA, the BCUC approved the establishment of the Non-Current Pension Cost regulatory account, in which variances that arise between forecast and actual non-current pension cost are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $86 million decrease in net income (2009—$ nil).

SITE C

Established under a regulatory order, the BCUC approved the creation of a regulatory account in respect of Site C expenditures incurred in fiscal 2007 and fiscal 2008. In the F2009/2010 RRA Decision, the BCUC approved the extension of the Site C regulatory account to the end of fiscal 2010. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $25 million decrease in net income (2009—$26 million decrease).

ENVIRONMENTAL COMPLIANCE

On March 31, 2010, BC Hydro filed a separate application for approval to establish a regulatory asset regarding a liability provision for environmental compliance and remediation arising from the costs that will likely be incurred to comply with the Federal Polychlorinated Biphenyl (PCB) Regulations enacted under the *Canadian Environmental Protection Act* and the remediation of environmental contamination at one of the Company's properties. In the absence of rate regulation, GAAP would require the inclusion of the provision to be included in operating results in the year in which it is recognized, which would have resulted in a $321 million decrease in net income. BC Hydro is awaiting approval from the BCUC for this regulatory account.

FUTURE REMOVAL AND SITE RESTORATION COSTS

As part of its October 2004 decision, the BCUC ordered the establishment of a regulatory provision for future removal and site restoration costs. This account was established in 2006 by a one-time transfer of $251 million from retained earnings. The costs of dismantling and disposal of property, plant and equipment will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation.

This liability has been recognized solely as a result of rate regulation as costs for future removal and site restoration have been established in excess of amounts required as asset retirement obligations. In the absence of rate regulation, it is likely that a liability would not be recognized. The amortization of previously capitalized amounts totaled $13 million in the current year (2009—$20 million). Consequently, net income would be $13 million lower than would have been recorded in the absence of rate regulation.

FOREIGN EXCHANGE GAINS AND LOSSES

Established under a regulatory order, foreign exchange gains and losses from the translation of specified foreign currency financial instruments are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $44 million increase in net income (2009—$23 million decrease).

FINANCE CHARGES

In its March 13, 2009 decision on the F2009/2010 RRA, the BCUC approved the establishment of the finance charges regulatory account, in which variances that arise between forecast and actual finance charges are deferred. In the absence of rate regulation, GAAP would require the inclusion of these cost variances in operating results in the year in which they are incurred, which would have resulted in a $104 million increase in net income (2009—$ nil).

OTHER REGULATORY ACCOUNTS

Other regulatory asset accounts with individual balances less than $65 million include the following: Depreciation Study Adjustments, Contributions in Aid of Construction Amortization Variance, Capital Project Investigation Costs, Smart Metering and Infrastructure Project Costs (SMI), Storm Damage, GM Shrum Unit 3 Outage, Home Purchase Option Plan and Return on Equity (ROE) Adjustment.

In 2010, $101 million of costs deferred to these accounts would have decreased net income in the absence of rate regulation (2009—$122 million decrease).

Other regulatory liability accounts with individual balances less than $65 million include the following: Net Employment Costs, Amortization of Capital Additions and Taxes.

In 2010, $42 million of costs deferred to these accounts would have increased net income in the absence of rate regulation (2009—$33 million increase).

All of these regulatory accounts have been approved by the BCUC through regulatory order, including SMI program costs for which BC Hydro received approval of deferral of up to $8.8 million in fiscal 2010 SMI costs on April 9, 2010.

For certain of the regulatory items identified above, the expected recovery or settlement period, or likelihood of recovery or settlement, is affected by risks and uncertainties relating to the ultimate authority of BCUC and operating results experienced during the year.

NOTE 6: CAPITAL MANAGEMENT

Orders in Council from the Province establish the basis for determining BC Hydro's equity for regulatory purposes, as well as its allowed return on equity and the annual Payment to the Province. Capital requirements are consequently managed through the retention of equity subsequent to the Payment to the Province and the imposed requirement of maintaining a debt to equity ratio not exceeding 80:20.

BC Hydro monitors its capital structure on the basis of its debt to equity ratio. For this purpose, BC Hydro defines debt as revolving borrowings and interest-bearing borrowings less investments held in sinking funds and cash and cash equivalents. Effective April 1, 2008, equity for regulatory purposes comprises retained earnings and accumulated other comprehensive income (loss).

BC Hydro manages its capital so as not to exceed the 80:20 debt to equity ratio as defined by the Province. During the year ended March 31, 2010, there were no changes in the approach to capital management.

The debt to equity ratio, based on equity as defined for regulatory purposes, at March 31, 2010 and March 31, 2009 was as follows:

(in millions)	**2010**	2009
Total long-term debt, net of sinking funds	**$ 10,705**	$ 9,325
Less: cash and cash equivalents	**(9)**	(190)
Net Debt	**$ 10,696**	$ 9,135
Retained earnings	**2,621**	2,221
Accumulated other comprehensive income (loss)	**53**	(42)
Total Equity	**$ 2,674**	$ 2,179
Net Debt to Equity Ratio for Regulatory Purposes	**80 : 20**	81 : 19

PAYMENT TO THE PROVINCE

Under a Special Directive from the Province, BC Hydro is required to make an annual Payment to the Province (the Payment) on or before June 30 of each year. The Payment is equal to 85 per cent of BC Hydro's distributable surplus for the most recently completed fiscal year assuming that the debt to equity ratio, as defined by the Province, after deducting the Payment, is not greater than 80:20. If the Payment would result in a debt to equity ratio exceeding 80:20, then the Payment will be based on the greatest amount that can be paid without causing the debt to equity ratio to exceed 80:20. The Payment accrued as at March 31, 2010 is $47 million (2009—$ nil) and is capped due to the debt to equity ratio.

NOTE 7: AMORTIZATION

(in millions)	**2010**	2009
Amortization of property, plant and equipment in service	**$ 418**	$ 359
Amortization of intangible assets	**42**	41
Amortization of deferred contributions	**(37)**	(33)
Other	**22**	28
Total	**$ 445**	$ 395

NOTE 8: FINANCE CHARGES

(in millions)	2010	2009
Interest on long-term debt	$ 502	$ 504
Foreign exchange (gains) losses	(34)	33
Other	10	(15)
	478	522
Less: Assigned to unfinished construction	(59)	(50)
Total	$ 419	$ 472

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

(in millions)	2010				2009 *(Revised Note 2)*			
	Property, Plant and Equipment in Service	**Accumulated Amortization**	**Unfinished Construction**	**Net Book Value**	Property, Plant and Equipment in Service	Accumulated Amortization	Unfinished Construction	Net Book Value
Generation								
Hydraulic	$ 6,953	$ 2,089	$ 520	$ 5,384	$ 5,958	$ 2,067	$ 354	$ 4,245
Thermal	450	288	33	195	427	272	11	166
Diesel	56	28	2	30	49	27	5	27
	7,459	2,405	555	5,609	6,434	2,366	370	4,438
Lines	8,289	3,116	414	5,587	7,870	2,986	321	5,205
Substations	3,023	1,340	193	1,876	2,759	1,295	148	1,612
Other								
Land and buildings	516	205	82	393	445	197	49	297
Equipment	199	118	19	100	181	115	6	72
Computer hardware	84	52	73	105	72	45	58	85
Service vehicles	170	67	30	133	148	63	12	97
Sundry	21	10	8	19	21	10	13	24
	990	452	212	750	867	430	138	575
Total	$ 19,761	$ 7,313	$ 1,374	$ 13,822	$ 17,930	$ 7,077	$ 977	$ 11,830

On March 5, 2010, BC Hydro purchased a one-third interest in the Waneta dam and generating facility near Trail, B.C. from Teck Metals Ltd. for proceeds of $825 million plus $16 million in transaction costs (Waneta Acquisition). At March 31, 2010, BC Hydro has included its one-third interest in the Waneta dam of $841 million in Generation assets.

NOTE 10: INTANGIBLE ASSETS

(in millions)	2010			2009 *(Revised Note 2)*		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Subject to Amortization						
Software	$ 316	$ 207	$ 109	$ 347	$ 230	$ 117
Internally developed software	46	38	8	—	—	—
Sundry	33	15	18	31	12	19
	395	260	135	378	242	136
Not Subject to Amortization						
Land rights	147	—	147	133	—	133
Total	$ 542	$ 260	$ 282	$ 511	$ 242	$ 269

NOTE 11: SINKING FUNDS

Sinking funds are held by the Trustee (the Minister of Finance for the Province) for the redemption of long-term debt. The sinking fund balances at the balance sheet date include the following investments:

(in millions)	2010		2009	
	Carrying Value	Weighted Average Effective Rate[1]	Carrying Value	Weighted Average Effective Rate[1]
Money market funds[2]	$ —	— %	$ 2	0.2 %
Province and BC Crown Corporation bonds	61	5.4 %	74	4.3 %
Federal and other provincial government securities	35	5.5 %	39	5.0 %
Total	$ 96		$ 115	

[1] *Rate calculated on market yield to maturity.*

[2] *Money market funds consist of federal and provincial government paper and high-grade commercial paper with a maturity of one year or less.*

Effective December 12, 2005, all sinking fund payment requirements on all new and outstanding debt have been removed.

NOTE 12: LONG-TERM DEBT AND DEBT MANAGEMENT

BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province.

BC Hydro's commercial paper borrowing program with the Province, which includes revolving borrowings, is limited to $3,000 million. At March 31, 2010, the outstanding amount under this borrowing program was $1,924 million (2009—$1,691 million).

During fiscal 2010, BC Hydro issued bonds with a par value of $2,070 million (2009—$352 million), a weighted average effective interest rate of 4.6 per cent (2009—4.6 per cent) and a weighted average term to maturity of 23.1 years (2009—19.2 years).

Long-term debt, expressed in Canadian dollars, is summarized in the following table by year of maturity:

(dollar amounts in millions of Canadian dollars)	2010				2009			
	Canadian	**US**	**Total**	**Weighted Average Interest Rate**[1]	Canadian	US	Total	Weighted Average Interest Rate[1]
Maturing in fiscal:								
2010	$ —	$ —	$ —	—	$ 574	$ 63	$ 637	6.5
2011	150	—	150	6.5	150	—	150	6.5
2012	450	—	450	6.1	450	—	450	6.1
2013	200	—	200	4.8	200	—	200	4.8
2014	500	203	703	6.6	500	252	752	6.4
2015	325	—	325	5.5	—	—	—	—
1-5 years	1,625	203	1,828	6.1	1,874	315	2,189	6.2
6-10 years	1,325	203	1,528	4.7	675	252	927	5.1
11-15 years	1,536	—	1,536	9.2	1,701	—	1,701	8.8
16-20 years	500	508	1,008	5.8	10	630	640	6.6
21-25 years	800	—	800	5.5	1,300	—	1,300	5.4
26-30 years	—	305	305	7.4	—	378	378	7.4
Over 30 years	1,620	—	1,620	4.8	350	—	350	5.0
Bonds and debentures	7,406	1,219	8,625	6.1	5,910	1,575	7,485	6.6
Revolving borrowings	1,924	—	1,924	0.4	1,691	—	1,691	1.0
	9,330	1,219	10,549		7,601	1,575	9,176	
Adjustments to carrying value resulting from hedge accounting	96	22	118		147	27	174	
Unamortized premium, discount, and issue costs	146	(12)	134		106	(16)	90	
	$ 9,572	$1,229	$10,801		$ 7,854	$ 1,586	$ 9,440	
Less: Current portion			2,074				2,329	
Long-term debt			$ 8,727				$ 7,111	

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[1] *The weighted average interest rate represents the effective rate of interest on fixed-rate bonds and the current interest in effect at March 31 for floating-rate bonds, all before considering the effect of derivative financial instruments used to manage interest rate risk.*

The following interest rate contracts were in place at March 31, 2010 in an asset position of $28 million (2009—$68 million). Floating rates are based on the effective rates at the balance sheet date and vary over time. Such contracts are used to hedge the impact of interest rate changes on debt.

(dollar amounts in millions)	**2010**	2009
Receive fixed, pay floating rate swaps		
Notional amount[1]	**$ 1,203**	$ 1,565
Weighted average receive rate	**3.66%**	4.48%
Weighted average pay rate	**0.42%**	1.03%
Weighted terms	**3 years**	3 years
Receive floating, pay fixed rate swaps		
Notional amount[1]	**$ 290**	$ 290
Weighted average receive rate	**0.61%**	0.96%
Weighted average pay rate	**4.90%**	4.90%
Weighted terms	**3 years**	4 years

[1] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

The following foreign currency contracts were in place at March 31, 2010 in a liability position of $149 million (2009—asset of $14 million). Such contracts are primarily used to hedge foreign dollar principal and interest payments.

(dollar amounts in millions)	**2010**	2009
Cross-Currency Swaps		
United States dollar to Canadian dollar – notional amount[1]	**US $200**	US $200
United States dollar to Canadian dollar – weighted average contract rate	**1.45**	1.45
Weighted remaining term	**3 years**	4 years

[1] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

(dollar amounts in millions)	**2010**	2009
Foreign Currency Forwards		
United States dollar – notional amount[1]	**US $864**	US $898
United States dollar – weighted average contract rate	**1.19**	1.19
Weighted remaining term	**16 years**	16 years

[1] *Notional amount for a derivative instrument is defined as the contractual amount on which payments are calculated.*

NOTE 13: FINANCIAL INSTRUMENTS

FINANCIAL RISKS

BC Hydro is exposed to a number of financial risks in the normal course of its business operations, including market risks resulting from fluctuations in commodity prices, interest rates and foreign currency exchange rates, as well as credit risks and liquidity risks. The nature of the financial risks and BC Hydro's strategy for managing these risks has not changed significantly from the prior period.

The following discussion is limited to the nature and extent of risks arising from financial instruments, as defined under Section 3862 of the CICA Handbook. However, for a complete understanding of the nature and extent of risks BC Hydro is exposed to, this note should be read in conjunction with BC Hydro's discussion of Risk Management found in the Management Discussion and Analysis section of the 2010 Annual Report.

(a) Credit Risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. BC Hydro is exposed to credit risk related to cash and cash equivalents, sinking fund investments, and derivative instruments. It is also exposed to credit risk related to accounts receivable arising from its day to day electricity and natural gas sales in and outside British Columbia. Maximum credit risk with respect to financial assets is limited to the carrying amount presented on the balance sheet with the exception of U.S. dollar sinking funds classified as held-to-maturity and carried on the balance sheet at amortized cost of $96 million. The maximum credit risk exposure for these U.S. dollar sinking funds as at March 31, 2010 is its fair value of $95 million. BC Hydro manages this risk through Board-approved credit risk management policies which contain limits and procedures to the selection of counterparties. Exposures to credit risks are monitored on a regular basis.

(b) Liquidity Risk

Liquidity risk refers to the risk that BC Hydro will encounter difficulty in meeting obligations associated with financial liabilities. BC Hydro manages liquidity risk by forecasting cash flows to identify financing requirements and by maintaining committed credit facilities. BC Hydro's long-term debt comprises bonds and debentures and revolving borrowings obtained under an agreement with the Province. Cash from operations reduces BC Hydro's liquidity risk. BC Hydro does not believe that it will encounter difficulty in meeting its obligations associated with financial liabilities.

(c) Market Risks

Market risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk, such as changes in commodity prices and equity values. BC Hydro monitors its exposure to market fluctuations and may use derivative contracts to manage these risks, as it considers appropriate. Other than in its energy trading subsidiary Powerex, BC Hydro does not use derivative contracts for trading or speculative purposes.

i. Currency Risk

Currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. BC Hydro's currency risk is primarily with the U.S. dollar.

The majority of BC Hydro's currency risk arises from long-term debt in the form of U.S. dollar denominated bonds. Energy commodity prices are also subject to currency risk as they are primarily denominated in U.S. dollars. As a result, BC Hydro's trade revenues and purchases of energy commodities, such as electricity and natural gas, and associated accounts receivable and accounts payable, are affected by the Canadian/U.S. dollar exchange rate. In addition, all commodity derivatives and contracts priced in U.S. dollars are also affected by the Canadian/U.S. dollar exchange rate.

BC Hydro actively manages its currency risk through a number of Board-approved policy documents. BC Hydro uses cross currency swaps and forward foreign exchange purchase contracts to achieve and maintain the Board-approved U.S. dollar exposure targets.

ii. Interest Rate Risk

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. BC Hydro is exposed to changes in interest rates primarily through its variable rate debt and the active management of its debt portfolio including its related sinking fund assets and temporary investments. BC Hydro Board-approved debt management strategies include maintaining a percentage of variable interest rate debt within a certain range. BC Hydro enters into interest rate swaps to achieve and maintain the target range of variable interest rate debt.

iii. Commodity Price Risk

BC Hydro is exposed to commodity price risk as fluctuations in electricity prices and natural gas prices could have a materially adverse effect on its financial condition. Prices for electricity and natural gas fluctuate in response to changes in supply and demand, market uncertainty, and a variety of other factors beyond BC Hydro's control.

BC Hydro enters into derivative contracts to manage commodity price risk. Risk management strategies, policies and limits are designed to ensure BC Hydro's risks and related exposures are aligned with the Company's business objectives and risk tolerance. Risks are managed within defined limits that are regularly reviewed by the Board of Directors.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount of consideration that would be exchanged in an arm's-length transaction between knowledgeable and willing parties who are under no compulsion to act. Fair values can be determined by reference to last quoted prices in the most advantageous active market for that instrument. In the absence of an active market, fair values are determined based on valuation models or by reference to instruments with similar characteristics and risk profiles.

Fair values of financial instruments determined using valuation models require the use of assumptions. In determining these assumptions, external, readily observable market inputs are used when available. In limited circumstances, input parameters that are not based on observable market data are used.

The inputs used in determining fair value are characterized by using a hierarchy that prioritizes inputs based on the degree to which they are observable. The three levels of the fair value hierarchy are as follows:

Level 1 are quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2 inputs are those other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, as of the reporting date.

Level 3 inputs are those that are not based on observable market data.

The following table presents the financial instruments measured at fair value for each hierarchy level as at March 31, 2010:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 9	$ —	$ —	$ 9
Revolving borrowings	—	(1,924)	—	(1,924)
Derivatives designated as hedges	—	(121)	—	(121)
Derivatives not designated as hedges	6	10	8	24
	$ 15	$ (2,035)	$ 8	$ (2,012)

There were no transfers between Levels 1 and 2 during the year.

The following table reconciles the changes in the balance of financial instruments carried at fair value on the balance sheet, classified as Level 3, for the year ended March 31, 2010:

	Derivatives not designated as hedges
Balance at March 31, 2009	$ 46
Net loss recognized	(13)
New transactions	8
Existing transactions settled	(33)
Balance at March 31, 2010	**$ 8**

A net loss of $20 million recognized in net income during the year ended March 31, 2010 relates to Level 3 financial instruments held at March 31, 2010. The net loss is recognized in trade revenue and expense.

The Company believes that the use of reasonable alternative valuation input assumptions in the calculation of Level 3 fair values would not result in significantly different fair values.

The following table provides a comparison of carrying values and fair values for non-derivative financial instruments as at March 31, 2010:

	2010		2009		Interest Income (Expense) recognized in Finance Charges	Interest Income (Expense) recognized in Finance Charges
(in millions)	**Carrying Value**	**Fair Value**	Carrying Value	Fair Value	**2010**	2009
Held for Trading:						
Cash and cash equivalents	**$ 9**	**$ 9**	$ 190	$ 190	**$ —**	$ 3
Revolving borrowings – CDN	**(1,924)**	**(1,924)**	(1,691)	(1,691)	**(8)**	(26)
Loans and Receivables:						
Accounts receivable and accrued revenue	**650**	**650**	713	713	**—**	—
Available for Sale:						
Sinking funds – US	**—**	**—**	2	2	**—**	—
Held to Maturity:						
Sinking funds – US	**96**	**95**	113	124	**5**	5
Other Financial Liabilities:						
Accounts payable and accrued liabilities	**(1,101)**	**(1,101)**	(1,272)	(1,272)	**—**	—
Long-term debt (including current portion due in one year)	**(8,877)**	**(9,776)**	(7,749)	(8,981)	**(494)**	(478)
Other	**(62)**	**(62)**	—	—	**—**	—

For non-derivative financial assets and liabilities classified as held-for-trading, a $3 million gain (2009—$2 million loss) has been recognized in net income for the period relating to changes in fair value. For loans and receivables, the carrying value approximates fair value and amortized cost due to the short term nature of these financial instruments. For available-for-sale financial assets, no amount has been recorded in other comprehensive income and no amount was removed from other comprehensive income and reported in net income for the period.

The fair value of derivative instruments designated or not designated as hedges, was as follows:

	2010		2009	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Designated Hedges Used to Manage Risk Associated with Long-term Debt:				
Foreign currency contracts (cash flow hedges for $US denominated long-term debt)	$ (154)	$ (154)	$ (1)	$ (1)
Interest rate swaps (fair value hedges for debt)	33	33	83	83
	(121)	(121)	82	82
Non-Designated Hedges:				
Foreign currency contracts	—	—	3	3
Commodity derivatives	24	24	13	13
Embedded derivatives	—	—	(3)	(3)
	24	24	13	13
Total	$ (97)	$ (97)	$ 95	$ 95

Information related to the foreign currency and interest rate swaps contracts is presented in Note 12. Additional information related to the fair value of the commodity derivatives is as follows:

As at March 31, 2010	Notional Quantity of Natural Gas (in TJ)	Notional Quantity of Electricity (in GWh)	Carrying Value	Fair Value	Maximum Term (in months)
Current assets	(96,555)	(15,167)	$ 408	$ 408	12
Long-term assets	(13,363)	(3,086)	62	62	102
Current liabilities	79,312	13,458	(385)	(385)	12
Long-term liabilities	12,786	2,600	(61)	(61)	33
Total			$ 24	$ 24	

As at March 31, 2009	Notional Quantity of Natural Gas (in TJ)	Notional Quantity of Electricity (in GWh)	Carrying Value	Fair Value	Maximum Term (in months)
Current assets	(79,894)	(14,436)	$ 792	$ 792	12
Long-term assets	(16,055)	(6,226)	215	215	45
Current liabilities	65,927	15,455	(785)	(785)	12
Long-term liabilities	14,523	5,576	(209)	(209)	33
Total			$ 13	$ 13	

Notional quantities in the above tables are presented on a net basis and do not necessarily represent the amounts to be exchanged by the parties to the instruments. Furthermore, the magnitude of the notional amounts does not necessarily correlate to the carrying value or fair value of the commodity derivatives.

The derivatives are represented on the balance sheet as follows:

	2010	2009
Current portion of derivative financial instrument assets	$ 434	$ 836
Current portion of derivative financial instrument liabilities	(393)	(877)
Derivative financial instrument assets, long-term	86	331
Derivative financial instrument liabilities, long-term	(224)	(195)
Total	$ (97)	$ 95

For the year ended March 31, 2010, an amount of less than $1 million (2009—$3 million) was recognized in finance charges related to the ineffective portion of designated cash flow hedges and fair value hedges. For designated cash flow hedges for the year ended March 31, 2010, a loss of $150 million (2009—gain of $151 million) was recognized in other comprehensive income. For the year ended March 31, 2010, $245 million (2009—$249 million) was removed from other comprehensive income and reported in net income, offsetting foreign exchange gains (2009—losses) recorded in the year.

For derivatives not designated as hedging instruments, a gain of $1 million (2009—$2 million) was recognized in domestic revenue for the year ended March 31, 2010 with respect to economic hedges and embedded derivatives. For the year ended March 31, 2010, $1 million (2009—$1 million) was recognized in finance charges with respect to foreign currency contracts for cash management purposes. A net gain of $113 million (2009—$62 million) was recorded in trade revenue for the year ended March 31, 2010 with respect to commodity derivatives.

CREDIT RISK

DOMESTIC ELECTRICITY RECEIVABLES

A customer application and a credit check are required prior to initiation of services. For customers with no BC Hydro credit history, call centre agents ensure accounts are secured either by a credit bureau check, a cash security deposit, or a credit reference letter.

The value of domestic and trade accounts receivable, by age and the related provision for doubtful accounts are presented in the following tables.

DOMESTIC AND TRADE ACCOUNTS RECEIVABLE NET OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

(in millions)	2010	2009
Current	$ 428	$ 465
Past due (30-59 days)	18	20
Past due (60-89 days)	5	5
Past due (more than 90 days)	3	4
	454	494
Allowance for doubtful accounts	(9)	(9)
Total	$ 445	$ 485

At the end of each reporting period a review of the provision for doubtful accounts is performed. It is an assessment of the potential amount of domestic and trade accounts receivable which will not be paid by customers after the balance sheet date. The assessment is made by reference to age, status and risk of each receivable, current economic conditions, and historical information. There was no change in the allowance for doubtful accounts during the year.

FINANCIAL ASSETS ARISING FROM BC HYDRO'S TRADING ACTIVITIES

A substantial majority of BC Hydro's counterparties associated with its trading activities are in the energy sector. This industry concentration has the potential to impact the Company's overall exposure to credit risk in that the counterparties may be similarly affected by changes in economic, regulatory, political, and other factors. The Company manages credit risk by authorizing trading transactions within the guidelines of the Company's risk management policies, by monitoring the credit risk exposure and credit standing of counterparties on a regular basis, and by obtaining credit assurances from counterparties to which they are entitled under contract.

The Company regularly uses standard master netting agreements that allow for netting of exposures and often include margining provisions. In addition, the Company has credit loss insurance that covers most credit exposure associated with transactions that are delivered in the United States.

With respect to these financial assets, BC Hydro assigns credit limits for counterparties based on evaluations of their financial condition, net worth, regulatory environment, cost recovery mechanisms, credit ratings, and other credit criteria as deemed appropriate. Credit limits and credit quality are monitored periodically and a detailed credit analysis is performed at least annually. Further, BC Hydro has tied a portion of its contracts to master agreements that require security in the form of cash or letters of credit if current net receivables and replacement cost exposure exceed contractually specified limits. The following table outlines the distribution, by credit rating, of financial assets that are neither past due nor impaired:

	Investment Grade %	Unrated %	Non-Investment Grade %	Total %
Accounts receivable	86	13	1	100
Derivative commodity assets	97	3	0	100

The outstanding amount of collateral received from customers at March 31, 2010 was $30 million (2009—$48 million).

LIQUIDITY RISK

The following table details remaining contractual maturities at March 31, 2010 of BC Hydro's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows. Interest payments have been computed using contractual rates or, if floating, based on rates current at March 31, 2010. In respect of the cash flows in U.S. dollars, the exchange rate as at March 31, 2010 has been used.

(in millions)	Carrying Value	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016 *and thereafter*
Non-Derivative Financial Liabilities							
Total trade and other payables (excluding interest accruals)	$ 933	$ (933)	$ —	$ —	$ —	$ —	$ —
Bank overdrafts	33	(33)	—	—	—	—	—
Long-term debt (including interest payments)	10,936	(2,611)	(982)	(700)	(1,175)	(761)	(12,219)
Other long-term liabilities	62	(4)	(4)	(4)	(4)	(4)	(160)
		(3,581)	(986)	(704)	(1,179)	(765)	(12,379)
Derivative Financial Liabilities							
Interest rate swaps used for hedging	20	(10)	(10)	(7)	(1)	—	—
Cross currency swaps used for hedging	87						
Cash outflow		(3)	(7)	(10)	(296)	—	—
Cash inflow		1	3	5	207	—	—
Forward foreign exchange contracts used for hedging	62						
Cash outflow		(17)	—	—	—	—	(923)
Cash inflow		17	—	—	—	—	785
Other forward foreign exchange contracts designated at fair value	—						
Cash outflow		(76)	—	—	—	—	—
Cash inflow		76	—	—	—	—	—
Financially settled commodity derivative liabilities designated at fair value	400	(332)	(46)	(5)	(5)	—	—
Physically settled commodity derivative liabilities designated at fair value	45	(130)	(24)	—	—	—	6
		(474)	(84)	(17)	(95)	—	(132)
Total		(4,055)	(1,070)	(721)	(1,274)	(765)	(12,511)
Financially settled commodity derivative assets designated at fair value	(338)	319	34	3	1	—	—
Physically settled commodity derivative assets designated at fair value	(131)	330	98	6	3	3	17
Net Total[1]		$ (3,406)	$ (938)	$ (712)	$ (1,270)	$ (762)	$(12,494)

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[1] *BC Hydro believes that the liquidity risk associated with commodity derivative financial liabilities needs to be considered in conjunction with the profile of payments or receipts arising from commodity derivative financial assets. It should be noted that cash flows associated with future energy sales and commodity contracts which are not considered financial instruments under Section 3855 are not included in this analysis, which is prepared in accordance with Section 3862.*

MARKET RISKS

(a) Currency Risk

Sensitivity Analysis

A $0.01 strengthening or weakening of the U.S. dollar against the Canadian dollar at March 31, 2010 would have no impact on net income and would have no material impact on other comprehensive income. The regulatory account that captures all variances from forecasted finance charges as described in Note 5 eliminates any impact on net income. This analysis assumes that all other variables, in particular interest rates, remain constant.

This sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at March 31, 2010 and had been applied to each of BC Hydro's exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables remain constant. The stated change represents management's assessment of reasonably possible changes in foreign exchange rates over the period until the next quarter end balance sheet date.

(b) Interest Rate Risk

Fair value sensitivity analysis for fixed rate non-derivative instruments

BC Hydro does not account for any fixed rate financial assets or liabilities as held-for-trading or available-for-sale. Therefore a change in interest rates at March 31, 2010 would not affect net income or other comprehensive income with respect to these fixed rate instruments.

Sensitivity analysis for variable rate non-derivative instruments and derivative instruments

An increase or decrease of 100-basis points in interest rates at March 31, 2010 would have no impact on net income and would have no material impact on other comprehensive income. The Finance Charges regulatory account that captures all variances from forecasted finance charges as described in Note 5 eliminates any impact on net income. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at March 31, 2010 and had been applied to each of BC Hydro's exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables remain constant. The stated change represents management's assessment of reasonably possible changes in interest rates over the period until the next quarter end balance sheet date.

(c) Commodity Price Risk

Sensitivity Analysis

Commodity price risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in commodity prices.

BC Hydro's subsidiary Powerex trades and delivers energy and associated products and services throughout North America. As a result, BC Hydro has exposure to movements in commodity prices for commodities it trades, including electricity, natural gas and associated derivative products. Prices for electricity and natural gas fluctuate in response to changes in supply and demand, market uncertainty, and other factors beyond BC Hydro's control.

BC Hydro manages these exposures through its Board-approved risk management policies, which limit components of and overall market risk exposures, pre-define approved products and mandate regular reporting of exposures.

BC Hydro's risk management policy for trading activities defines various limits and controls, including Value at Risk ("VaR") limits, Stop-Loss/Gain limits, and various transaction specific limits which are monitored on a daily basis. VaR estimates the pre-tax forward trading loss that could result from changes in commodity prices, with a specific level of confidence, over a specific time period. Powerex uses an industry standard Monte Carlo VaR model to determine the potential change in value of its forward trading portfolio over a 10-day holding period, within a 95 per cent confidence level, resulting from normal market fluctuations.

VaR as an estimate of price risk has several limitations. The VaR model uses historical information to determine potential future volatility, assuming that price movements in the past will be indicative of future price movements. It cannot forecast unusual events such as extreme price movements. In addition, it is sometimes difficult to appropriately estimate the VaR associated with illiquid or non-standard products. As a result, Powerex uses additional measures to supplement the use of VaR to estimate price risk. These include the use of a Historic VaR methodology, weekly stress tests, notional limits for illiquid or emerging products, and independent reporting regarding non-standard options.

Powerex's VaR, calculated under this methodology, was approximately $7 million at March 31, 2010 (2009—$14 million).

NOTE 14: DEFERRED CONTRIBUTIONS

(in millions)	2010	2009
Contributions in aid of construction	$ 970	$ 898
Contributions arising from the Columbia River Treaty	109	118
Total	$ 1,079	$ 1,016

NOTE 15: OTHER LONG-TERM LIABILITIES

(in millions)	2010	2009
Environmental liabilities	$ 329	$ 14
Accrued pension benefit liability (Note 16)	87	84
Accrued other benefit plan liability (Note 16)	211	197
First Nations liabilities	308	326
Deferred revenue	389	382
Asset retirement obligations	58	5
Total	$ 1,382	$ 1,008

ENVIRONMENTAL LIABILITIES AND ASSET RETIREMENT OBLIGATIONS

On March 31, 2010, the Company booked a $370 million provision related to the phase-out and destruction of PCB contaminated assets and the remediation of environmental contamination at one of the Company's properties at the present value of estimated future cash flows for costs likely to be incurred between fiscal 2011 and 2045. Of this total, $321 million was recorded as an environmental liability and $49 million was recorded as an asset retirement obligation. The undiscounted cash flow related to the Company's environmental liabilities is approximately $625 million and was determined based on current cost estimates inflated to reflect an annual inflation rate of 2.1 per cent and then was discounted at rates ranging from 1.1 to 4.8 per cent. As described in Note 5, BC Hydro has applied for deferral of these costs.

The Company estimates the undiscounted amount of cash flows required to settle asset retirement obligations at $110 million (2009—$22 million), which will be incurred between fiscal 2011 and 2054. A range of discount rates between 3.0 to 5.9 per cent were used to calculate the net present value of the obligations.

DEFERRED REVENUE

Deferred revenue consists principally of amounts received under the Skagit River Agreements. Under these agreements, BC Hydro is required to deliver a predetermined amount of electricity each year for an 80-year period ending in fiscal 2066. In return BC Hydro receives approximately US $22 million each year for a 35-year period ending in fiscal 2021 and US $100,000 (adjusted for inflation) each year for an 80-year period ending in fiscal 2066.

The amounts received under the Skagit River Agreements are deferred and included in income on an annuity basis over the electricity delivery period ending in fiscal 2066.

NOTE 16: EMPLOYEE FUTURE BENEFIT PLANS

BC Hydro provides a defined benefit statutory pension plan to substantially all employees, as well as supplemental arrangements which fund the pension benefits earned in excess of the maximum pension benefits provided by the defined benefit statutory pension plan. Pension benefits are based on years of membership service and highest five-year average pensionable earnings. Annual cost-of-living increases are provided to pensioners to the extent that funds are available in the indexing fund. Employees make basic and indexing contributions to the plan funds based on a percentage of current pensionable earnings. BC Hydro contributes amounts as prescribed by an independent actuary. BC Hydro is responsible for ensuring that the statutory pension plan has sufficient assets to pay the pension benefits upon retirement of employees. The supplemental arrangements are unfunded. The most recent actuarial funding valuation for the statutory pension plan was performed at December 31, 2006. The next valuation for funding purposes will be prepared as at December 31, 2009.

BC Hydro also provides post-retirement benefits other than pensions including medical, extended health and life insurance coverage for retirees who have at least 10 years of service and qualify to receive pension benefits. Certain benefits, including the short-term continuation of health care and life insurance, are provided to terminated employees or to survivors on the death of an employee. These other post-retirement benefits and post-employment benefits are not funded. Post-employment benefits include the pay-out of benefits that vest or accumulate, such as banked vacation.

Information about the benefit plans, post-retirement benefits and post-employment benefits other than pensions is as follows:

(a) The net expense for BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2010**	2009	**2010**	2009
Net expense	$ **73**	$ 5	$ **24**	$ 24

(b) Information about BC Hydro's benefit plans as at March 31, in aggregate, is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	**2010**	2009	**2010**	2009
Accrued benefit obligation	$ **2,538**	$ 2,183	$ **238**	$ 188
Fair value of plan assets	**2,174**	1,902	**—**	—
Plan deficit	$ **(364)**	$ (281)	$ **(238)**	$ (188)
Unamortized net actuarial losses	**616**	574	**14**	(28)
Unamortized past service costs	**4**	5	**—**	—
Unamortized transition (asset) liability	**(30)**	(45)	**13**	19
Accrued benefit asset (liability)	$ **226**	$ 253	$ **(211)**	$ (197)

Represented by:

	2010	2009	2010	2009
Accrued benefit asset	$ 313	$ 337	$ —	$ —
Accrued benefit liability	(87)	(84)	(211)	(197)
	$ 226	$ 253	$ (211)	$ (197)

The net accrued benefit liability is included in Other Long-Term Liabilities (Note 15) and the pension asset is included in other assets and deferred charges.

The pension plan assets and obligations are measured as at December 31, 2009. The other benefit plan obligations are measured as at March 31, 2010. No valuation allowance was required in fiscal 2010 and fiscal 2009. No benefit plans were fully funded in fiscal 2010 or 2009.

(c) The significant assumptions adopted in measuring BC Hydro's accrued benefit obligations are as follows:

	Pension Benefit Plans		Other Benefit Plans	
	2010	2009	2010	2009
Discount rate				
Benefit cost	7.35%	5.5%	7.70%	5.85%
Accrued benefit obligation	6.14%	7.35%	5.69%	7.70%
Expected long-term rate of return on plan assets	7.3%	7.5%	n/a	n/a
Rate of compensation increase				
Benefit cost	3.8%	3.8%	n/a	n/a
Accrued benefit obligation	3.7%	3.8%	n/a	n/a
Heath care cost trend rates				
Weighted average health care cost trend rate	n/a	n/a	5.9%	5.5%
Weighted average ultimate health care cost trend rate	n/a	n/a	3.8%	3.9%
Year ultimate health care cost trend rate will be achieved	n/a	n/a	2013	2013

(d) Other information about BC Hydro's benefit plans is as follows:

	Pension Benefit Plans		Other Benefit Plans	
(in millions)	2010	2009	2010	2009
Employer contributions	$ 40	$ 36	$ —	$ —
Employee contributions	$ 24	$ 21	$ —	$ —
Benefits paid	$ 134	$ 127	$ 10	$ 10
Settlement payments	$ 11	$ 6	$ —	$ —

(e) Asset allocation of the defined benefit statutory pension plan as at the measurement date:

	Target Allocation	2010	2009
Equities	60%	61%	58%
Fixed income investments	30%	30%	30%
Real estate	10%	9%	12%

Plan assets are re-balanced within ranges around target applications. The expected return on plan assets is determined by considering long-term historical returns, future estimates of long-term investment returns and asset allocations.

NOTE 17: OTHER COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

OTHER COMPREHENSIVE INCOME (LOSS)

(in millions)	2010	2009
Other Comprehensive Income (Loss)		
Unrealized (loss) gain on derivatives designated as cash flow hedges	$ (150)	$ 151
Reclassification to income on derivatives designated as cash flow hedges	245	(249)
Other Comprehensive Income (Loss)	$ 95	$ (98)

Comprehensive income consists of net income and other comprehensive income (OCI). OCI represents the changes in shareholder's equity during a period arising from transactions and changes in the fair value of available for sale securities and the effective portion of cash flow hedging instruments. Amounts are recorded in OCI until the criteria for recognition in the consolidated statement of operations are met.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

(in millions)	2010	2009
Accumulated other comprehensive (loss) income, beginning of period	$ (42)	$ 56
Other comprehensive income (loss) for the period	95	(98)
Accumulated Other Comprehensive Income (Loss), End of Period	$ 53	$ (42)

NOTE 18: COMMITMENTS AND CONTINGENCIES

ENERGY COMMITMENTS

BC Hydro (excluding Powerex) has long-term energy purchase contracts to meet a portion of its expected future domestic electricity requirements. The minimum obligations to purchase energy under these contracts have a total amount of approximately $17,137 million of which approximately $1,401 million relates to the purchase of natural gas and natural gas transportation contracts, at market prices over 30 years. The remaining commitments are at predetermined prices. Powerex has energy purchase commitments with an estimated minimum payment obligation of $3,008 million extending to 2025 and purchase commitments for energy and capacity services with a value of $336 million extending to 2015.

The total combined payments for the next five years are approximately (in millions): 2011—$1,125; 2012—$1,076; 2013—$1,042; 2014—$1,045; 2015—$1,003.

Powerex has energy sales commitments over the next five years with a total estimated value of $1,460 million.

LEASE AND SERVICE AGREEMENTS

BC Hydro has entered into various agreements to lease facilities or assets, or to purchase business support services. The agreements cover periods of up to 10 years, and the aggregate minimum payments are approximately $446 million. Payments for the next five years are approximately (in millions): 2011—$144; 2012—$140; 2013 —$137; 2014—$7; 2015—$5.

LEGAL CONTINGENCIES

a) Since 2000, Powerex has been named, along with other energy providers, in lawsuits and U.S. federal regulatory proceedings which seek damages and/or contract rescissions based on allegations that, during part of 2000 and 2001, the California wholesale electricity markets were unlawfully manipulated and energy prices were not just and reasonable. Powerex has obtained dismissals of all but one of the lawsuits. In the remaining lawsuit, the California Department of Water Resources (CDWR) has claimed that it was forced under duress to enter into numerous transactions with Powerex in 2001. Powerex has obtained an indefinite stay of this remaining lawsuit pending resolution of related proceedings before the Federal Energy Regulatory Commission (FERC).

FERC has approved a settlement agreement between FERC staff and Powerex that acknowledged that there was no evidence that Powerex engaged in any gaming or other improper practices with any other market participants, and further noted that Powerex was a valuable and reliable supplier to the California market throughout the energy crisis. FERC's approval of this settlement is currently being challenged by various California parties. If the challenges are unsuccessful, FERC's determination that Powerex did not engage in market manipulation will stand and could provide Powerex with additional defences in the remaining litigation and other FERC proceedings.

FERC decided earlier in the proceedings that certain market-wide refunds will have to be paid by energy providers to various California parties. The precise amount has not been determined and the timing of the refunds is unknown. In addition, FERC has been ordered by the Ninth Circuit to reconsider additional refunds based on allegations of seller market manipulation and on quarterly reporting deficiencies. CDWR transactions will be included in these latter inquiries.

A FERC trial judge has determined that in the event Powerex and other energy providers improperly reported transactional data to FERC in 2000 and 2001, those reports did not hide an accumulation of market power which resulted in unreasonably high energy prices. If the FERC Commission issues a final order upholding the trial judge's initial decision it is expected that the California Parties will commence appeal proceedings.

At March 31, 2010, Powerex was owed US $265 million (CDN $269 million) by the California Power Exchange (Cal Px) and the California Independent System Operator (CAISO) related to Powerex's electricity trade activities in California during the period covered by the lawsuits. As a result of defaults by a number of California utilities, the Cal Px and CAISO were unable to pay these amounts to Powerex. It is expected those receivables will be offset against any refunds that Powerex is required to pay.

Due to the ongoing nature of the regulatory and legal proceedings against Powerex, management cannot predict the outcomes of the claims against Powerex. Powerex has recorded provisions for uncollectible amounts and legal costs associated with the California energy crisis. These provisions are based on management's best estimates, and are intended to adequately provide for any exposure. However, the amounts that are ultimately collected or paid may differ from management's current estimates. Management has not disclosed the provision amounts or ranges of expected outcomes due to the potentially adverse effect on the process.

b) Facilities and Rights of Way: BC Hydro is subject to existing and pending legal claims relating to alleged infringement and damages in the operation and use of facilities owned by BC Hydro. These claims may be resolved unfavourably with respect to BC Hydro and may have a significant adverse effect on BC Hydro's financial position. For existing claims in respect of which settlement negotiations have advanced to the extent that potential settlement amounts can reasonably be predicted, management has recorded a provision for the potential costs of those settlements. For pending claims, management believes that any loss exposure that may ultimately be incurred may differ materially from management's current estimates. Management has not disclosed the ranges of expected outcomes due to the potentially adverse effect on the negotiation process for these pending claims.

c) Due to the size, complexity and nature of BC Hydro's operations, various other legal matters are pending. It is not possible at this time to predict with any certainty the outcome of such litigation. Management believes that any settlements related to these matters will not have a material effect on BC Hydro's consolidated financial position or results of operations.

d) BC Hydro and its subsidiaries have outstanding letters of credit, related primarily to Powerex trading activities. At March 31, 2010, the letters of credit outstanding total CDN $62 million and US $94 million.

NOTE 19: GEOGRAPHIC INFORMATION

Revenues, based on location of the customer, are as follows:

(in millions)	2010	2009
British Columbia	$ 3,102	$ 2,824
Canada (excluding British Columbia)	171	373
United States	549	1, 072
Total	$ 3,822	$ 4,269

Substantially all of BC Hydro's assets are located in the Province of British Columbia. Energy sales outside of British Columbia are carried out by Powerex, a wholly owned subsidiary of BC Hydro.

NOTE 20: RELATED PARTY TRANSACTIONS

As Crown Corporations of the Province, BC Hydro, BCTC and the Province are considered related parties. All transactions between BC Hydro and its related parties are considered to possess commercial substance and are consequently recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The related party transactions and balances are summarized below:

(in millions)	2010	2009
Province of BC		
Accounts receivable	$ 93	$ 92
Accounts payable	114	53
Water rental fees	312	310
Cost of energy sales	167	229
Taxes	111	108
Finance charges	419	472
Payment to the Province	47	288
BCTC		
Accounts receivable	$ 85	$ 56
Accounts payable	61	49
Cost of energy sales	72	77
Operating costs	92	91
Other	59	53
Columbia Power Corporation		
Cost of energy sales	48	53

BC Hydro's debt is either held or guaranteed by the Province (see Note 12). Under an agreement with the Province, BC Hydro indemnifies the Province for any credit losses incurred by the Province related to interest rate and foreign currency contracts entered into by the Province on BC Hydro's behalf. At March 31, 2010, the aggregate exposure under this indemnity totaled approximately $58 million (2009 revised—$159 million). BC Hydro has not experienced any losses to date under this indemnity.

NOTE 21: SUBSEQUENT EVENT

CONSOLIDATION OF BC TRANSMISSION CORPORATION

On April 28, 2010, the Province tabled its *Clean Energy Act* in the B.C. Legislature. The Act will set the foundation for a new future of electricity self-sufficiency powered by unprecedented investments in clean, renewable energy across the province. As part of its initiatives, the Act calls for the consolidation of BC Hydro and BCTC into a single organization with one board of directors and executive, and the transfer of all BCTC assets, liabilities and employees to BC Hydro. The companies will be combined in the second quarter of fiscal 2011 with transition activities expected to continue through the balance of the fiscal year.

FINANCIAL AND OPERATING STATISTICS

FINANCIAL STATISTICS

for the years ended or as at March 31 (millions of dollars)	2010	2009	2008	2007	2006
Revenues	$ 3,822	$ 4,269	$ 4,210	$ 4,192	$ 4,311
Expenses					
Energy costs	1,785	2,393	2,057	2,117	2,488
Operating costs[1]	1,249	915	942	716	805
Amortization	445	395	368	378	411
Taxes	173	167	153	149	147
Finance charges	419	472	463	453	435
	4,071	4,342	3,983	3,813	4,286
Income Before Regulatory Account Transfers	(249)	(73)	227	379	25
Regulatory Transfers	696	438	142	28	241
Net Income	$ 447	$ 365	$ 369	$ 407	$ 266
Property, Plant and Equipment & Intangible Assets					
At cost	$ 21,677	$ 19,418	$ 18,262	$ 17,161	$ 16,699
Less: Accumulated depreciation	7,573	7,319	7,108	6,735	6,676
Net Book Value	$ 14,104	$ 12,099	$ 11,154	$ 10,426	$ 10,023
Property, Plant & Equipment and Intangible Asset Additions					
Sustaining	$ 948	$ 664	$ 557	$ 428	$ 363
Expansion	1,458	733	519	379	247
Total property, plant & equipment and intangible asset additions[2]	2,406	1,397	1,076	807	610
Less: Contributions in aid of construction	101	97	100	85	68
Net Property, Plant & Equipment and Intangible Asset Additions	$ 2,305	$ 1,300	$ 976	$ 722	$ 542
Net Long-Term Debt[3]	$ 10,696	$ 9,135	$ 7,519	$ 6,916	$ 6,627

[1] *Maintenance, operations and administrative costs.*

[2] *Total property, plant and equipment and intangible asset expenditures include non-cash items.*

[3] *Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.*

FINANCIAL AND OPERATING STATISTICS

KEY FINANCIAL AND OPERATING COMPARATIVES

Financial Comparatives *(millions of dollars unless otherwise stated)*	**2010**	2009	2008	2007	2006
Revenues	**$ 3,822**	$ 4,269	$ 4,210	$ 4,192	$ 4,311
Net income	**$ 447**	$ 365	$ 369	$ 407	$ 266
Property, Plant & Equipment and Intangibles	**$ 14,104**	$ 12,099	$ 11,154	$ 10,426	$ 10,023
Net long-term debt[1]	**$ 10,696**	$ 9,135	$ 7,519	$ 6,916	$ 6,627
Retained earnings	**$ 2,621**	$ 2,221	$ 1,865	$ 1,783	$ 1,707
Property, Plant & Equipment and Intangible Additions	**$ 2,406**	$ 1,397	$ 1,076	$ 807	$ 610
Debt to equity ratio, as defined for regulatory purposes	**80 : 20**	81 : 19	70 : 30	70 : 30	70 : 30
Return on equity (%), as defined for regulatory purposes	**12.49**	11.75	11.33	13.44	9.26
EBIT Interest coverage[2]	**1.96**	1.72	1.85	1.96	1.69
Operating Comparatives					
Number of customers	**1,830,935**	1,801,328	1,767,194	1,736,987	1,704,892
Generating capacity (MW):					
Hydroelectric	**10,259**	10,242	10,237	10,232	10,219
Thermal	**1,086**	1,088	1,089	1,091	1,094
Peak one-hour demand (MW)	**9,847**	10,010	9,548	10,113	9,317
Average annual kWh use per residential customer	**10,857**	11,258	11,290	10,906	10,846
Average number of customers per employee	**311**	305	338	373	399
Domestic sales (GWh)	**50,233**	52,512	53,300	52,911	52,440
Trade sales (GWh)	**48,842**	50,799	51,815	41,336	36,547
Total electricity sold per employee (GWh)	**13.43**	14.55	17.66	18.70	19.45

[1] *Consists of long-term debt, including the current portion, net of sinking funds and cash and cash equivalents.*

[2] *The calculation for EBIT has been revised to use Net Income to properly reflect BC Hydro's income performance and to make the measure comparable to other companies. Previously BC Hydro used Net Income before regulatory transfers in its EBIT calculation. Prior years EBIT Interest Coverage have been restated to conform with the current methodology.*

FINANCIAL AND OPERATING STATISTICS

OPERATING STATISTICS

for the years ended or as at March 31	2010	2009	2008	2007	2006
Generating Capacity (megawatts)					
Hydroelectric[1]	**10,259**	10,242	10,237	10,232	10,219
Thermal	**1,086**	1,088	1,089	1,091	1,094
Total	**11,345**	11,330	11,326	11,323	11,313
Peak One-Hour Demand Integrated System (megawatts)	**9,847**	10,010	9,548	10,113	9,317
Customers					
Residential	**1,633,558**	1,606,156	1,568,508	1,540,176	1,511,435
Light industrial and commercial	**193,522**	191,286	194,861	193,070	189,764
Large industrial	**163**	162	160	146	146
Other	**3,455**	3,434	3,408	3,349	3,326
Trade	**287**	290	257	246	221
Total	**1,830,985**	1,801,328	1,767,194	1,736,987	1,704,892
Electricity Sold (gigawatt-hours)					
Residential	**17,593**	17,861	17,553	16,651	16,261
Light industrial and commercial	**17,811**	18,265	18,406	18,268	17,913
Large industrial	**13,020**	14,303	15,380	15,989	16,428
Other	**1,809**	2,083	1,961	2,003	1,838
Domestic	**50,233**	52,512	53,300	52,911	52,440
Trade	**48,842**	50,799	51,815	41,336	36,547
Total	**99,075**	103,311	105,115	94,247	88,987
Domestic Change Over Previous Year (%)	**(4.3)**	(1.5)	0.7	0.9	2.4
Revenues (millions)					
Residential	**$ 1,300**	$ 1,197	$ 1,171	$ 1,070	$ 1,046
Light industrial and commercial	**1,133**	1,054	1,054	1,025	989
Large industrial	**485**	481	536	556	584
Other energy sales	**172**	82	183	135	108
Domestic	**3,090**	2,814	2,944	2,786	2,727
Trade	**732**	1,455	1,266	1,406	1,584
Total	**$ 3,822**	$ 4,269	$ 4,210	$ 4,192	$ 4,311

FINANCIAL AND OPERATING STATISTICS

OPERATING STATISTICS

(CONTINUED)

for the years ended or as at March 31	2010	2009	2008	2007	2006
Average Revenue (per kilowatt-hour)					
Residential	**7.4 ¢**	6.7 ¢	6.7 ¢	6.4 ¢	6.4 ¢
Light industrial and commercial	**6.4**	5.8	5.7	5.6	5.5
Large industrial	**3.7**	3.4	3.5	3.5	3.6
Other	**9.5**	3.9	9.3	6.7	5.9
Trade [2]	**4.4**	6.6	6.5	6.5	7.8
Average Annual Kilowatt-Hour Use Per Residential Customer	**10,857**	11,258	11,290	10,906	10,846
Lines In Service					
Distribution (kilometres)	**57,278**	56,780	56,297	55,705	55,224
Transmission (circuit kilometres)	**18,603**	18,531	18,531	18,336	18,234
Number of Employees [3]	**5,842**	5,844	5,185	4,546	4,203

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[1] *Maximum sustained generating capacity.*

[2] *The method used to calculate the trade revenue per kilowatt hour is based on gross trade revenues.*

[3] *Includes full time and part-time employees of BC Hydro and its subsidiaries.*

TOTAL REQUIREMENTS FOR ELECTRICITY AND SOURCES OF SUPPLY

for the years ended March 31

	2010			2009			2008			2007			2006	
	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Generating Capacity (Megawatts)	Gigawatt-Hours	%	Gigawatt-Hours	%
Requirements														
Domestic	11,345	50,233	60.3	11,330	52,512	58.0	11,326	53,300	55.3	11,323	52,911	57.8	52,440	59.8
Electricity trade		28,210	33.9		32,504	36.0		37,450	38.8		33,372	36.4	29,906	34.1
		78,443	94.2		85,016	94.0		90,750	94.1		86,283	94.2	82,346	93.9
Line loss and system use		4,840	5.8		5,391	6.0		5,677	5.9		5,329	5.8	5,356	6.1
		83,283	100.0		90,407	100.0		96,427	100.0		91,612	100.0	87,702	100.0
Sources of Supply														
Hydroelectric generation														
Gordon M. Shrum	2,730	14,756	17.7	2,730	15,287	17.0	2,730	16,477	17.1	2,730	12,470	13.6	14,628	16.7
Revelstoke	1,980	7,061	8.5	1,980	6,955	7.7	1,980	9,496	9.8	1,980	7,740	8.4	7,915	9.0
Mica	1,805	6,549	7.9	1,805	5,695	6.3	1,805	8,562	8.9	1,805	7,036	7.7	7,006	8.0
Kootenay Canal	583	2,255	2.7	583	2,507	2.8	583	3,083	3.2	580	3,286	3.6	3,300	3.8
Peace Canyon	694	3,709	4.4	694	3,801	4.2	694	4,054	4.2	694	3,054	3.3	3,580	4.1
Seven Mile	805	2,870	3.4	805	3,306	3.7	805	2,880	3.0	805	3,573	3.9	3,082	3.5
Bridge River	478	1,948	2.3	478	2,360	2.6	478	2,793	2.9	476	2,609	2.8	2,736	3.1
Other	1,184	4,059	4.9	1,167	3,901	4.3	1,162	4,795	4.9	1,162	4,708	5.1	4,603	5.2
	10,259	43,207	51.8	10,242	43,812	48.6	10,237	52,140	54.0	10,232	44,476	48.5	46,850	53.4
Thermal generation														
Burrard	950	233	0.3	950	116	0.1	950	260	0.3	950	727	0.8	39	—
Other	136	315	0.4	138	347	0.4	139	353	0.4	141	333	0.4	336	0.4
Purchases under long-term commitments		13,403	16.1		12,359	13.6		11,878	12.3		10,306	11.2	11,275	12.9
Purchases under short-term commitments		27,217	32.7		33,237	36.7		32,281	33.5		35,360	38.6	29,831	34.0
Exchange net		(1,092)	(1.3)		536	0.6		(485)	(0.5)		410	0.4	(629)	(0.7)
	11,345	83,283	100.0	11,330	90,407	100.0	11,326	96,427	100.0	11,323	91,612	100.0	87,702	100.0

APPENDICES

PROGRESS AGAINST THE SHAREHOLDER'S LETTER OF EXPECTATIONS

THE SHAREHOLDER'S LETTER OF EXPECTATIONS

The Shareholder's Letter of Expectations describes the relationship between BC Hydro and the Province, and sets out objectives the Shareholder wishes BC Hydro to achieve. The Province and BC Hydro review the letter annually and update it as required.

Directions outlined in the letter for which this Annual Report is referring, dated February 2009, focus on accountability, energy conservation, climate change, stakeholder consultation, private sector support, supply options, electricity trading and government relations.

OUTLINED BELOW IS HOW BC HYDRO HAS RESPONDED TO EACH OF THE SHAREHOLDER'S EXPECTATIONS:

BC Hydro shall:

Conduct its affairs to achieve its mandate and the performance expectations and objectives of the Shareholder, including establishing plans and implementing corporate strategies, programs, plans and financial outcomes that are consistent with the Shareholder's general direction and consistent with principles of integrity, efficiency, effectiveness and customer service.

BC Hydro action

Annually, BC Hydro prepares a Service Plan, Annual and Quarterly Reports, which outline our performance in alignment to the expectations laid out by the Shareholder. These can be found under Reports.

BC Hydro shall:

Conduct its operations and financial activities in a manner consistent with the legislative, regulatory and policy framework established by the Shareholder.

BC Hydro action

This annual report reports on how we have remained consistent with the legislative, regulatory and policy framework established by the Shareholder.

BC Hydro shall:

Prepare Service Plans with clearly articulated goals, objectives, strategies and performance measures and targets, and Annual Reports that describe the Corporation's progress toward achieving those goals, and post both documents on its website.

BC Hydro action

BC Hydro prepares and publishes the Service Plan and Annual Report. In addition, the G3 Report, Quarterly Reports and supplemental reports are posted online, as appropriate.

BC Hydro shall:

Display all annual Statement of Financial Information schedules prepared under *The Financial Information Act* in an easily accessible location on its website.

BC Hydro action

BC Hydro's financial information is released through its Annual Report.

BC Hydro shall:

Develop and implement strategies to manage risks identified in the Service Plan.

BC Hydro action

BC Hydro's operations involve a broad spectrum of risks ranging from those commonly associated with any business to catastrophic societal loss risks that would have severe effects on entire regions. The key risks BC Hydro faces are divided into six categories for management purposes: employee, public and dam safety; reliability; financial performance; regulatory; organization risk; and environmental.

BC Hydro shall:

Comply with the Shareholder's requirements to make the public sector carbon neutral by 2010, including: accurately defining, measuring, reporting on and verifying the greenhouse gas emissions from the corporation's operations; implementing aggressive measures to reduce those emissions and reporting on these reduction measures and reduction plans; and offsetting any remaining emissions through investments in the Pacific Carbon Trust, which will invest in greenhouse gas reduction projects outside of the corporation's scope of operations.

BC Hydro action

BC Hydro currently supplies electricity at one of the lowest carbon intensities in the world. Concern about greenhouse gas emissions is now a permanent part of utility planning and BC Hydro has developed a climate change strategy that will manage regulatory risk and ensure compliance, reduce greenhouse gas emissions and prepare for the unavoidable physical impacts of climate change.

BC Hydro shall:

Encourage staff involvement in developing ideas and new solutions to meet the provincial government's climate change objectives, including energy conservation programs and fleet and traffic management initiatives and report on results achieved.

BC Hydro action

This past year, our Lead by Example program continued to develop BC Hydro's own conservation initiatives for employees and our facilities. From behaviour programs to capital projects to policy direction, we continue to promote energy efficiency and conservation with programs designed to instil a conservation culture both at home and at work. In addition to other facility upgrades, we also implemented a power management software system to reduce computer energy consumption across the company. Through our Fleet Services branch, we aimed to reduce greenhouse gas emissions by changing behavioural traits through an "Idle-Free" campaign and utilizing modern technology. We have also developed updated energy efficiency and workplace environment standards for any new buildings and refurbishments.

BC Hydro shall:

Support the Shareholder's Healthier Choices Initiative, including ensuring that all non-contracted vending machines located in facilities owned or leased by the corporation have food products which meet the Shareholder's Nutrition Guidelines for Vending Machines in Public Buildings, and that contracted vending machines be transitioned to the Nutrition Guidelines for Vending Machines in Public Buildings as soon as practicable upon expiry of their contracts.

BC Hydro action

As part of the Province's Healthier Choices Initiative, non-contracted vending machines at all BC Hydro buildings and sites have been transitioned to provide healthier choices under the terms of the Nutrition Guidelines, effective April 2009.

BC Hydro shall:

Provide the Shareholder with reports and other information that would enable the Shareholder to carry out its responsibilities.

BC Hydro action

Annually, BC Hydro prepares a Service Plan, Quarterly Reports and the Annual Report, which outline our performance in alignment to the expectations laid out by the Shareholder. These can be found under Reports.

BC Hydro shall:

Provide information to the Shareholder if BC Hydro is unable to meet the targets as identified in the Service Plan.

BC Hydro action

Annually, BC Hydro prepares Quarterly Reports, which outline our performance in alignment to the expectations laid out by the Shareholder.

BC Hydro shall:

Continually review and improve its organization structure to enhance accountability, cost effectiveness and performance.

BC Hydro action:

See Corporate Governance to see the latest organization structure and changes that have been made in the last year.

BC Hydro shall:

Aggressively pursue all actions necessary to implement the objectives of the BC Energy Plan; continue to provide Government with a monthly progress report on key initiatives and as well as a summary of annual progress on environmental leadership, innovation, energy conservation and efficiency, and energy security and self-sufficiency in BC Hydro's Annual Report to the Shareholder.

BC Hydro action:

See Report on Performance on page 15.

BC Hydro shall:

Pursue the installation of smart meters to replace existing meters of residential and commercial customers by 2012, as required by the 2008 amendments to the *Utilities Commission Act.*

BC Hydro action:

BC Hydro is pursuing the Smart Metering and Smart Grid programs as initially presented in the 2008 amendments to the *Utilities Commission Act* as well as the *2010 Clean Energy Act*.

BC Hydro shall:

Actively participate in the BC Utilities Commission's review of long-term transmission requirements to ensure a comprehensive process.

BC Hydro action:

BC Hydro has amalgamated a number of planning processes into a 30-year long-term Integrated Resource Plan, as required by the *2010 Clean Energy Act*. The initial plan will consider B.C.'s electiricity needs over the next 30 years and will be developed with input from the public, stakeholders and First Nations. BC Hydro will have 18 months to deliver the Integrated Resource Plan which will be approved or rejected by the provincial government. Once approved, the BCUC will be required to consider and be guided by the Plan in its future decisions.

BC Hydro shall:

In consultation with the Shareholder, proactively provide public information and education regarding the supply of and the demand for electricity and options for meeting future needs in consultation with Government.

BC Hydro action:

See www.bchydro.com.

BC Hydro shall:

Through its subsidiary Powerex, actively pursue extra-provincial energy trading markets and explore and identify opportunities to facilitate access for Independent Power Producers to western North American markets.

BC Hydro action:

Powerex continues its energy marketing and trade activities including buying and supplying wholesale power, natural gas, ancillary services, financial energy products, and, more recently, environmental products with an ever-expanding list of trade partners. These activities help optimize BC Hydro's electric system resources and provide significant economic benefits to British Columbians.

BC Hydro shall:

Advise and consult with the Shareholder in advance of any anticipated or desired BC Hydro initiatives that could have public policy implications.

BC Hydro action

Ongoing through regular formal and informal updates to the Shareholder.

BC Hydro shall:

Demonstrate at an appropriate point in time that mid-term contract negotiations with the International Brotherhood of Electrical Workers resulted in a cost-neutral labour cost to BC Hydro as an employer.

BC Hydro action

BC Hydro has verified that the mid-term contract negotiations with the International Brotherhood of Electrical Workers were cost neutral and provided supporting documentation to the Public Sector Employer's Council.

LEGISLATION AND GOVERNMENT EXPECTATIONS

Legislation

Two key provincial legislative statutes enable BC Hydro's operations: the *Hydro and Power Authority Act*, which established BC Hydro and our general powers and governance and the *Utilities Commission Act*, which created the BC Utilities Commission (BCUC) and established the framework for regulation of public utilities. The BCUC is responsible for ensuring that customers receive safe, reliable and non-discriminatory energy services at fair rates from the utilities it regulates, that shareholders of these utilities are afforded a reasonable opportunity to earn a fair return on their invested capital, and that the competitive interests of B.C. businesses are not frustrated.

BC Hydro's assets also come under the terms of the *BC Hydro Public Power Legacy and Heritage Contract Act*. This act enabled the establishment of the Heritage Contract and ensures public ownership of BC Hydro's Heritage Resources, which includes BC Hydro's transmission and distribution systems, and all of BC Hydro's existing generation and storage assets. The act also includes any future increases to the capacity and energy capability of these facilities.

Recent Legislation

In April 2010, the provincial government tabled *The Clean Energy Act*. The Act sets the foundation for a new future of electricity self-sufficiency, job creation and reduced greenhouse gas emissions, powered by unprecedented investments in clean, renewable energy across the province. The *Act* builds upon British Columbia's unique heritage advantages and wealth of clean, renewable energy resources. The act's priority areas include:

- ensuring electricity self-sufficiency at competitive rates;
- harnessing B.C.'s clean power potential to create jobs in every region; and
- strengthening environmental stewardship and reducing greenhouse gas emissions.

Other Legislation

In 2008, the B.C. Government passed several new pieces of legislation relevant to BC Hydro:

The *Greenhouse Gas Reductions (Cap and Trade) Act*, which establishes a cap and trade regulatory system, and amendments to the *Greenhouse Gas Reduction Act (Emissions Standards)*, which set into law the BC Energy Plan's requirement for zero net emissions from new and existing (in 2016) electricity projects.

APPENDICES

The *Utilities Commission Amendment Act* received Royal Assent in May 2008. The amendments align the *Utilities Commission Act* with the BC Energy Plan's objectives and require the BCUC to consider, among other objectives, the goals of:

- reducing greenhouse gas emissions,
- pursuing energy conservation and efficiency,
- producing and acquiring electricity from clean or renewable resources,
- providing technology and information to customers to help them conserve, and implement several other policy actions from the BC Energy Plan.

The *Carbon Tax Act* came into effect on July 1, 2008. The carbon tax applies to fossil fuels, including gasoline, diesel, natural gas, coal, propane and home heating fuel, and is intended to encourage individuals and businesses to make more environmentally responsible choices, reduce their use of fossil fuels and thus reduce greenhouse gas emissions.

On November 29, 2007, the B.C. Government passed Bill 44, the *Greenhouse Gas Reduction Targets Act*. The act puts into law British Columbia's target of reducing greenhouse gas (GHG) emissions by at least 33 per cent below 2007 levels by 2020, and by at least 80 per cent below 2007 levels by 2050.

The act requires provincial ministries and agencies, schools, colleges, universities, health authorities and Crown corporations (including BC Hydro) to become carbon neutral by 2010 and to make public a report every year detailing the actions (including changes to facilities, vehicle fleets and procurement, but excluding travel) they have taken towards carbon neutrality.

The BC Energy Plan

Value for the Shareholder extends beyond the financial expectations outlined above to include such other attributes as reputation and delivering on the BC Energy Plan. Reputational value includes the ability to provide and maintain an acceptable standard of living for British Columbians and integral to this is providing reliable energy at competitive rates.

In February 2007, the B.C. Government released the BC Energy Plan. The BC Energy Plan provides further clarity on value as it seeks to make the province energy self-sufficient while taking responsibility for our natural environment and climate. These attributes are balanced by the financial expectations which ensure that we focus on operating efficiently and effectively while delivering Shareholder value.

The BC Energy Plan looks to all forms of clean alternative energy— as well as energy conservation and efficiency—in meeting the future energy needs of British Columbians.

The plan sets a goal for BC Hydro to acquire 50 per cent of incremental resource needs through energy conservation and efficiency by 2020, while at the same time requiring:

- all new electricity projects developed in B.C. will have zero net greenhouse gas emissions;
- existing thermal generation power plants will reach zero net greenhouse gas emissions by 2016;
- there will be zero greenhouse gas emissions from coal-fired electricity generation;
- clean or renewable electricity generation will continue to account for at least 90 per cent of total provincial generation, placing the province among the top jurisdictions in the world; and
- the province will be electricity self-sufficient by 2016.

Effective April 2010, the *Clean Energy Act* outlines that BC Hydro acquire 66 per cent of incremental resource needs through energy conservation and efficiency.

APPENDICES

GUIDING PRINCIPLES

The Guiding Principles, reflecting the following language, are available in BC Hydro's 2009/2010–2011/2012 Service Plan.

Reliability (Customer)	To provide best-in-class reliability by customer segment.
Electricity Security (Supply)	To meet all domestic needs.
Remote Community Electrification	To provide appropriate electric service to all remote communities on an equitable basis.
Financial Targets	To maintain low costs for electricity customers in B.C. over the long-term while consistently delivering 100 per cent of forecast net income.
Innovation and Technology	To be an industry leader in innovative use of technology, directly supporting and advancing BC Hydro's long-term goals.
Western Opportunities	To profitably increase Western market share based on access to assets in B.C. and the Western system and increased trading activity.
Environmental Impact	To have no net incremental environmental impact by 2024 when compared with 2004.
Energy Conservation and Efficiency	To develop and foster a conservation culture in B.C. that leads to customers to choose a dramatic and permanent reduction in electricity intensity.
Safety	To provide the safest work environment compared with the best performers in any industry, with none of our employees experiencing a serious safety injury.
Teamwork	To use exceptional teamwork to engage all employees in the achievement of BC Hydro's purpose and long-term goals.
Workplace	To be a top employer for generations.
Customer Satisfaction	To lead other companies in offering extraordinary value and service.
Suppliers	To ensure 100 per cent of suppliers have demonstrated values congruent with those of BC Hydro.
Stakeholder Engagement	To be the most respected company in B.C.
First Nations	To improve relationships built on mutual respect and that appropriately reflect the interests of First Nations.

APPENDICES

CAPITAL PROJECTS

Many of BC Hydro's dams and power-generating facilities were constructed in the late 1960s, 1970s and early 1980s. While BC Hydro has maintained these facilities using the latest maintenance techniques, many require refurbishment or upgrade to continue to provide British Columbia with reliable electricity. BC Hydro employs a life-cycle approach to asset management, designed to maximize the economic return on physical assets over their life, while at the same time managing the risks inherent in owning, managing and operating a large and aging fleet of generation assets. BC Hydro has developed a Strategic Asset Management Plan, including facility Asset Plans that detail the overall investment strategy for each facility, taking into account the facility role, issues, performance targets, risks and growth opportunities.

BC Hydro's capital expenditure on generation assets has been increasing steadily since fiscal 2001. Capital investment including both growth and sustaining capital has grown from $90 million in fiscal 2001 to $460 million in fiscal 2011. This will continue over the next five years—and likely beyond— as large projects move into the expenditure-intensive implementation phase.

APPROVED PROJECTS OVER $50 MILLION

The following major projects were underway or completed during fiscal 2010

Cheakamus Spillway Gate Reliability Upgrade

BC Hydro is upgrading the spillway gates at the Cheakamus dam to meet maximum flood discharge requirements. Spillway gates control the amount of water that can be discharged from the reservoir and are most often used in times of flood to pass high inflows. The upgrade is scheduled to be complete by March 2012.

Peace Canyon Generator Stator Replacement and Rotor Modification

BC Hydro is installing four new stators and modifying existing rotors at the Peace Canyon Generating Station to address design deficiencies, reduce the risk of forced outages and make the plant safer for employees. BC Hydro has completed the four units as planned, and project completion documentation is being assembled.

Peace Canyon G1-G4 Turbine Overhaul

In 2006, BC Hydro overhauled Peace Canyon Unit 4 turbine at the same time as the Unit 4 stator was replaced. This overhaul showed that components of the turbine were worn and damaged. As a result, BC Hydro overhauled the other three units to prevent further wear that would eventually have affected the reliability of these units. All four units have been completed and project completion documentation is being assembled.

GM Shrum Generator Stator Replacements

BC Hydro is replacing the stators on Units 1 to 4 at the GM. Shrum Generating Station that are at risk of failure and where rewinding the stators is not technically feasible due to the condition of the cores. The project began in fiscal 2008, with one new stator being installed each year. To date, three of the four stators have been installed successfully. The project is on budget and on schedule to be completed before the end of fiscal 2011.

Mica Generator Stator and Rotor Pole Replacements

BC Hydro is replacing the generator stator and rotor poles on each of the four units at the Mica Generating Station to reduce the risk of forced outages. Project implementation began in fiscal 2006 with one unit scheduled to be completed each year. The last unit was returned to service in 2009 and the project was completed on budget and on schedule. Project completion documentation is being assembled.

Revelstoke Unit 5 Addition

The Revelstoke Generating Station was originally designed as a six-unit generating station. However, when the facility was constructed only four units were installed, leaving two unit bays empty. Work to add a fifth 500 MW unit to provide needed capacity began in November 2007 and is expected to be in-service by October 2010.

G.M. Shrum Units 1 to 5 Turbine Replacement

The runners and head covers for Units 1 to 5 have experienced cracking problems since the units went into service in the late 1960s, and one unit—Unit 3—failed catastrophically in the spring of 2008. Therefore plans are in hand to replace the runners to reduce the risk of runner failure, decrease maintenance costs and improve operating efficiency. The project was found to be in the public interest by the British Columbia Utilities Commission in January of 2010, and construction is expected to start in fiscal 2013.

Hugh Keenleyside Spillway Gate Reliability Upgrades

BC Hydro is planning to upgrade the spillway gates at the Hugh Keenleyside dam to meet maximum flood discharge requirements. Spillway gates control the amount of water that can be discharged from the reservoir and are most often used in times of flood to pass high inflows. An application to the British Columbia Utilities Commission for the Hugh Keenleyside Spillway Gate Reliability Upgrade is expected to be filed in May 2010.

Stave Falls Gate Reliability Upgrades

BC Hydro is planning to upgrade the spillway gates at the Stave Falls dam to meet maximum flood discharge requirements. Spillway gates control the amount of water that can be discharged from the reservoir and are most often used in times of flood to pass high inflows. The British Columbia Utilities Commission determined that the Stave Falls Spillway Gate Reliability Upgrade Project is in the public interest in May 2010, and the project has been approved for full implementation funding by the BC Hydro Board of Directors.

Strathcona Intake Tower and Seismic Upgrade

Strathcona is the upstream-most dam on the Campbell River and its reservoir provides the primary storage for the Campbell River system. The intake tower, power conduit, spillway piers and earthfill dam do not meet current seismic standards, and BC Hydro is studying how best to address seismic concerns to improve public safety and system reliability. The Strathcona Intake Tower Interim Seismic Upgrade Project was initiated as a first step to reduce the risk of failure of the most vulnerable component of the Strathcona facility, the intake tower, from 1 in 100 to 1 in 475 years. The intake tower work is in construction and scheduled to be completed in fiscal 2011.

Mica Gas-Insulated-Switchgear (GIS) Replacement

BC Hydro is replacing the gas insulated switchgear at Mica Generating Station to reduce the risk of a forced outage impacting availability and reliability of the electricity supply, and to prevent SF_6 gas (a greenhouse gas) leakage. The gas-insulated-switchgear carries electricity at 500 kilovolts from the Mica underground powerhouse to the surface, where it transitions to transmission lines. In April 2010, the British Columbia Utilities Commission found that the essential elements of the Mica GIS Project were in the public interest, with the exception of those elements related to the Mica Units 5 & 6 Project. BC Hydro believes the risk of cost recovery on the scope of the project that was considered by the BCUC to be justified is low, and as a result BC Hydro has continued with the implementation of all elements of the Mica Gas-Insulated-Switchgear project.

Fort Nelson Generating Station Resource Smart Upgrade

In order to meet growing customer demand in the region, BC Hydro is upgrading the Fort Nelson Generating Station including increasing its net capacity by 24.5 MW.

Mica Units 5 & 6 Project

The Mica Generating Station is BC Hydro's third largest generating facility. Built in the 1970s the plant was built with four large hydroelectric generating units but with bays for two additional units of approximately 500 MW each. The Mica Units 5 and 6 Project involves installation of generating units similar to the four existing units but with more efficient turbines. The Project also requires BC Transmission Corporation (BCTC) to construct a series capacitor station located near the mid-point on the existing Mica-Nicola 500kV transmission lines. The Mica Units 5 & 6 Project received Environmental Assessment Certificates (EACs) in April 2010. Also, as a result of the BC Government's announcement of the Clean Energy Plan, BC Hydro will proceed with obtaining the required Board of Director approval to proceed with implementation of the project.

CONTEMPLATED PROJECTS OVER $50 MILLION—SCOPE BEING DETERMINED

BC Hydro is contemplating the following additional projects over $50 million. Work was completed on these projects during fiscal 2009; however, the recommended solution and scope for these projects remain to be determined, and we are not in a position to provide a target completion date or a cost estimate for these projects. We will update interim project cost estimates as we further refine the scope of each project. These projects have not yet been approved by our Board of Directors or Management.

BC Hydro is considering a number of other large capital projects and is at various stages of identifying and defining their scope, including costs and potential alternatives.

Alouette Generating Station Redevelopment

The 9 MW Alouette Generating Station has been in operation since 1928. Because of its age and the condition of the facility, including the fact that it does not meet current seismic standards, BC Hydro is contemplating rehabilitating or replacing both the powerhouse and the generating equipment.

Bridge River Unit 5 and 6 Upgrades

Planning is underway to upgrade two units at Bridge River, including the replacement or refurbishment of the generators and ancillary equipment, to address the condition and known deficiencies of major components. These generators were commissioned almost 50 years ago and have not undergone a major refurbishment since being placed in service.

Cheakamus Generator Replacements

BC Hydro is considering the implementation of a Resource Smart project to increase the capacity of Cheakamus generating station from 157 MW to 180 MW.

John Hart Generating Station Redevelopment

The John Hart facility, in service since 1947, needs significant capital investment to ensure reliable long-term generation and to mitigate earthquake risk and environmental risk to fish and fish habitat. BC Hydro is investigating replacement of the existing six-unit, 126 megawatt generating station with a new three-unit, 135 megawatt powerhouse with integrated bypass capability to minimize river flow disruption impacts to fish and fish habitat.

Lajoie Dam Seismic Upgrade

The Lajoie Dam is a rockfill structure completed in 1955. A refurbishment of the dam was completed in 1972 and since then, periodic repairs have been required due to increased leakage as the dam settles. The dam does not meet current seismic standards, and BC Hydro is considering an upgrade to ensure dam and public safety and to maintain reliability of supply.

Ruskin Dam and Powerhouse Upgrade

The upper portion of the Ruskin Dam, built in 1930, does not meet current seismic standards and is vulnerable to earthquakes. As an interim measure, BC Hydro has lowered the Hayward Lake Reservoir, behind the Ruskin Dam, by approximately two metres, anchored the most critical section of the upper dam and made drainage improvements on the downstream side of the right abutment.

BC Hydro is considering dam upgrade work to further mitigate earthquake risk and protect public safety. BC Hydro is also analyzing upgrade and rehabilitation alternatives for the powerhouse, which was completed in 1930, to meet current seismic standards for earthquakes and to replace major generating equipment, which is in poor or unsatisfactory condition.

Revelstoke Unit 6

The Revelstoke generating station was designed a six-unit facility; however, it had only four units installed, with two unit bays left empty at each station. Currently a fifth unit is being installed and is expected to be in service by October 2010. To support system reliability, BC Hydro is evaluating the addition a sixth at Revelstoke which would provide approximately 500 megawatts of capacity.

APPENDICES

Strathcona Seismic and Seepage Issues

Strathcona is the upstream dam on the Campbell River and its reservoir provides the primary storage for the Campbell River system. The Strathcona intake tower, power conduit, spillway piers and the earth fill dam do not meet current seismic standards. BC Hydro is contemplating upgrades to the facility to improve public safety, system reliability and minimize environmental impacts.

Fort Nelson Generating Station Expansion

In order to meet growing customer demand in the region, BC Hydro is evaluating options for the expansion of the Fort Nelson Generating facility to further increase generating capacity in the region. BC Hydro is considering this expansion and upgrade within its long term resource planning process. Transmission options will also be considered.

Investments in Burrard Thermal Generating Station

BC Hydro will conduct detailed condition assessments of the Burrard Thermal Generating Station to confirm the investments required to ensure the continued reliable operation of the facility, such as the purchase of critical spare parts and control systems upgrades.

SUBSIDIARIES

Powerex Corporation

Powerex Corporation, a wholly-owned subsidiary of BC Hydro, is a key participant in energy markets across North America, buying and supplying wholesale power, natural gas, ancillary services, financial energy products and, more recently, environmental products with an ever-expanding list of trade partners. Established in 1988 and located in Vancouver, its energy marketing and trade activities help optimize BC Hydro's electric system resources and provide significant economic benefits to the people of British Columbia. The Chief Executive Officer reports to the Board of Directors of Powerex Corporation and has a reporting relationship to BC Hydro's Chief Executive Officer. BC Hydro's Chief Executive Officer ensures the Board of BC Hydro is informed of Powerex's key strategies and business activities.

For the past 10 years, Powerex has increasingly purchased electricity from outside the BC Hydro system to support BC Hydro's domestic needs and to meet its own trade commitments. Powerex also markets, on behalf of the Province, the Canadian Entitlement to the Downstream Benefits of the Columbia River Treaty.

The U.S. to Canadian dollar exchange rate and the energy markets in which Powerex trades vary and therefore income can vary significantly from year to year. Powerex's net income over the last five years has ranged from $12 to $259 million.

Powertech Labs Inc.

Powertech Labs Inc., as a wholly-owned subsidiary of BC Hydro, has been providing consulting and testing services to electric utilities, gas companies, automotive manufacturers and others since 1989. Operating as a separate commercial entity, Powertech has combined unique testing capabilities with multidisciplinary, expert technical staff to help clients solve energy related problems. In addition to providing technical services to BC Hydro, Powertech serves a large number of clients in energy-related sectors across North America, Asia, Europe and beyond. Powertech Labs is located on an 11 acre, 21-lab campus in Surrey and has 130 employees as of March 2010.

In 2008, the Board directed Powertech's management team to develop a new strategic direction for Powertech that will capitalize on its core capabilities, strong industry client base and emerging market opportunities. The new strategic plan calls for Powertech to become a clean technology company, competing successfully in global markets in order to create value for BC Hydro and British Columbia.

Powertech's operating income (unaudited) was $966,000 with gross revenue (unaudited) of $26.3 million in fiscal year 2010.

Other Subsidiaries

BC Hydro has created a number of other subsidiaries to help us manage risk in developing projects and/or contracting with third parties. The Boards and management of these subsidiaries are made up of BC Hydro employees, who perform these duties without additional remuneration.

APPENDICES

TRIPLE BOTTOM LINE REPORTING AND THE GLOBAL REPORTING INITIATIVE

BC Hydro prepares its Annual Report in compliance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G3 Guidelines). The GRI facilitates the transparency and accountability for organizations and provides stakeholders with a universally-applicable, comparable framework from which to understand disclosed information. GRI is an independent body but remains an official collaborating centre of the United Nations Environment Programme (UNEP) and works in cooperation with United Nations Global Compact.

The GRI guidelines were developed through dialogue with a large network of stakeholder from more than 60 countries which included representatives from communities such as business, accountancy, investment, environmental, human rights, research and labour organizations. GRI is now used by thousands of organizations worldwide to report on performance across the three dimensions of sustainability—financial, environmental and social.

In 2006, BC Hydro became an Organizational Stakeholder (OS) of the Global Reporting Initiative. Organizational Stakeholders play an integral part in the GRI governance. In addition to becoming an OS member, we also participated in the development of the new Electric Utilities Sector Supplement (EUSS) guidelines which were released publicly in April 2009. The EUSS tailors GRI's Reporting Framework to the needs of the electric utility industry and includes additional sector-specific reporting guidance.

For the fiscal 2010 reporting period, BC Hydro has made the full transition from the previously used 2002 GRI Sustainability Reporting Guidelines to the new G3 framework. As well, we are continuing to integrate some of the EUSS elements into our reporting processes.

BC Hydro's suite of sustainability performance measures is a combination of measures developed to track our achievement towards meeting our guiding principles and long-term goals as outlined in our annual Service Plan, measures derived from financial and operational statistics and measures developed specifically to meet GRI reporting requirements.

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